CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED

遠 大 醫 藥 健 康 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the ‘‘Board’’) of China Grand Pharmaceutical and Healthcare Holdings Limited (the ‘‘Company’’) is pleased to announce the results of the Company and its subsidiaries (collectively the ‘‘Group’’) for the year ended 31 December 2012 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Turnover	*4*	**2,059,307**	1,647,576
Cost of sales		**(1,414,124)**	(1,132,477)
Gross profit		**645,183**	515,099
Other income		**89,790**	78,429
Distribution costs		**(340,313)**	(261,906)
Administrative expenses		**(236,986)**	(205,911)
Other operating expenses	*5*	**(353)**	(346)
Share of results of associates		**15**	504
Finance costs	*6*	**(41,801)**	(26,405)
Profit before tax		**115,535**	99,464
Income tax expenses	*7*	**(10,830)**	(12,793)
Profit for the year	*8*	**104,705**	86,671

	Notes	**2012** **_HK$'000_**	2011 _HK$'000_
Other comprehensive income/(loss)			
Exchange difference on translation of foreign operations		**10,572**	24,381
Change in fair value of available-for-sale finance assets, after tax		**196**	(3,844)
Other comprehensive income for the year		**10,768**	20,537
Total comprehensive income for the year		**115,473**	107,208
Profit for the year attributable to:			
- Owners of the Company		**67,305**	54,235
- Non-controlling interests		**37,400**	32,436
		104,705	86,671
Total comprehensive income attributable to:			
- Owners of the Company		**76,809**	70,963
- Non-controlling interests		**38,664**	36,245
		115,473	107,208
Dividend	_9_	**-**	-
Earnings per share	_10_		
- Basic (HK cents)		**3.46**	2.82
- Diluted (HK cents)		**3.46**	2.82

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**1,423,363**	726,068
Prepaid lease payments		**434,655**	365,228
Interests in associates		**11,750**	8,469
Available-for-sale financial assets		**52,498**	51,737
Deposit for acquisition of non-current assets		**27,804**	74,680
Goodwill		**97,133**	72,037
Intangible assets		**298**	649
Deferred tax assets		**3,661**	3,623
Prepayments		**26,028**	23,984
Loan receivables		**37,316**	17,247
		2,114,506	1,343,722
Current assets			
Inventories		**442,297**	319,163
Trade and other receivables	*11*	**443,436**	341,280
Loan receivable		**14,926**	7,392
Prepaid lease payments – current portion		**10,516**	9,303
Pledged bank deposits		**23,816**	66,939
Bank balances and cash		**304,588**	343,348
		1,239,579	1,087,425
Current liabilities			
Trade and other payables	*12*	**614,466**	300,695
Bank borrowings		**1,305,755**	695,231
Tax payable		**36,433**	34,871
		1,956,654	1,030,797
Net current (liabilities)/assets		**(717,075)**	56,628
Total assets less current liabilities		**1,397,431**	1,400,350
Non-current liabilities			
Bank borrowings		**115,578**	36,834
Deferred tax liabilities		**81,463**	82,816
Amount due to holding company		**19,649**	12,656
Deferred income		**301,012**	298,125
		517,702	430,431
NET ASSETS		**879,729**	969,919
Capital and reserves			
Share capital		**19,620**	19,208
Reserves		**733,654**	619,970
Equity attributable to owners of the Company		**753,274**	639,178
Non-controlling interests		**126,455**	330,741
TOTAL EQUITY		**879,729**	969,919

Notes:

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical, healthcare and chemical products in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent and ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), and the functional currency of the Group is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accounts ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2012. A summary of the new HKFRSs are set out as below:

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets

The application of these new HKFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements. The impact of the application of the new HKFRSs is discussed below.

Under the amendments to HKAS 12, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes under the presumption is rebutted. The Group measured its investment properties using cost model. The amendments to HKAS 12 have had no material impact on the Group's consolidated financial statements.

The amendments to HKFRS 7 Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The Group did not enter into any types of transfers of financial assets during the year. The amendments to HKFRS 7 have had no material impact on the disclosure requirements in the Group's consolidated financial statements.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements 2009 – 2011 Cycle[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance [2]

Amendments to HKFRS 1, HKFRS 12 and HKAS 27 (2011)	Investment Entities[3]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclisure[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interest in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair values at the end of subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Change in fair value attributable to a financial liability's credit risk is not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair values of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Annual improvements to HKFRSs 2009-2011 Cycle include a number of amendments to various HKFRSs. The amendments to HKFRSs include:

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments will have a significant effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax relating to distributions holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

For other new HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$717,075,000 as at 31 December 2012. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to , the followings: (i) as set out in note 35 to the financial statements, the Group has compensation of approximately RMB513,000,000 (equivalent to approximately HK$638,000,000) not yet received by the Group from the Land Reserve Centre; (ii) as set out in note 5 to the financial statements, the Group has unused banking facilities of approximately HK$1,041 million as at 31 December 2012; and (iii) Outwit Investments Limited, a shareholder of the Company, has agreed to provide continuing financial support to the Group. As such, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

4. TURNOVER AND SEGMENT INFORMATION

For the year ended 31 December 2012, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**1,369,487**	1,179,231	**2,058,347**	1,288,362
America	**174,613**	86,686	**-**	-
Europe	**246,098**	204,725	**-**	-
Asia other than PRC	**260,467**	141,625	**-**	-
Others	**8,642**	35,309	**-**	-
Total	**2,059,307**	1,647,576	**2,058,347**	1,288,362

Note: Non-current assets excluded available-for-sale financial assets and deferred tax assets.

Information about major customers

For the years ended 31 December 2012 and 2011, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

5. OTHER OPERATING EXPENSES

	2012	2011
	HK$'000	*HK$'000*
Amortisation of intangible assets	**353**	346

6. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**41,410**	25,924
Interest on amount due to holding company	**391**	481
	41,801	26,405

7. INCOME TAX EXPENSES

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
PRC	**13,117**	14,850
Deferred tax	**(2,287)**	(2,057)
	10,830	12,793

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company and its subsidiaries which operate in Hong Kong have no assessable profits for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

8. PROFIT FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Profit for the year is stated after charging (crediting):		
Depreciation of property, plant and equipment	**68,898**	45,669
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**10,969**	6,722
Amortisation of intangible assets (included in other operating expenses)	**353**	346
Total depreciation and amortisation	**80,220**	52,737
Share of tax of associates	**149**	147

9. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: HK$Nil).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**67,305**	54,235

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,946,942**	1,920,801

Diluted earnings per share was the same as the basic earnings per share because there was no potential dilutive ordinary share outstanding during the years ended 31 December 2012 and 2011.

11. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**208,608**	176,796
Bills receivables	**75,516**	94,090
Other receivables, deposits and prepayments	**183,918**	97,653
Less: impairment loss on other receivables	**(24,606)**	(27,259)
	443,436	341,280

The Group allows a credit period of 30 – 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date.

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**176,798**	143,110
91-180 days	**14,463**	24,293
181-365 days	**17,611**	11,630
Over 365 days	**21,395**	17,885
	230,267	196,918
Less: accumulated impairment	**(21,659)**	(20,122)
	208,608	176,796

12. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**187,232**	100,079
Bills payables	**117,410**	45,081
Accrued charges and other payables	**309,824**	155,535
	614,466	300,695

An ageing analysis of trade payables is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**134,627**	72,083
Over 90 days	**52,605**	27,996
	187,232	100,079

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which indicate that the Group had net current liabilities of approximately HK$717,075,000 as at 31 December 2012. These conditions, along with other matters as set forth in Note 3 to the financial statements, indicate that existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2012, the Group commits to expand business through self-expansion and acquisition of related medical assets in order to maintain relatively high growth rate. We have executed a few business acquisition transactions during the year, and also performed several production improvement projects and expanded more new markets in order to obtain higher return and more market shares. We also extended the sales network and the product bases and aims to become one of the largest manufacturers of pharmaceutical and healthcare products in the PRC.

During the year 2012, the Group has acquired approximately 25.93% additional equity interests in the Grand Pharmaceutical (China) Co., Limited (the "Grand Pharm (China)") through tender and business negotiation. As a result, the equity interests in the Grand Pharm (China) held by the Group was increased from approximately 73.67% to 99.60%. The Board is optimistic on the future development of Grand Pharm (China), and is of the view that the acquisition of additional interest in the Grand Pharm (China) may allow the Group to consolidate its control over Grand Pharm (China) and generate good return from its growing business in the future.

In November 2012, the Group used RMB72 million as consideration to acquire the entire equity interest in Hubei Wellness Pharmaceutical Co., Ltd. (the "Hubei Wellness"). The Hubei Wellness has certain patents in related to the cerebro-cardiovascular medicines and antibiotics and also a few production licenses for pharmaceutical preparation products. It also has advanced manufacturing and research facilities, and a sales network for its products which has already contributed returns. It is expected that the products of the Hubei Wellness may result in a synergy effect with the core cerebro-cardiovascular medicines products of the Group and provide fruitful return in the coming future.

Furthermore, the Group also entered a subscription agreement in February 2012 to issue 41,240,000 new shares of the Company ("Share(s)") at HK$0.333 each Share. The issuance of new Shares may not only enlarge the shareholder bases of the Group, the proceeds from this transaction may also support the business development of the Group, including the settlement of the consideration for the acquisition of equity interest of Grand Pharm (China) and for other working capital purpose.

Turnover

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$2,059.3 million, which increased by approximately 25.0% in compare with the same period of last year. The average gross profit margin of the Group was approximately 31.3%, which maintained at a similar level as 2011.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc. During the year ended 31 December 2012, the turnover amount of pharmaceutical preparations was approximately RMB535.59 million and was increased by approximately 26.0% in compare with the same period of last year.

- **Cerebro-cardiovascular medicines**

  The cerebro-cardiovascular medicine is the core product and the business growth engine of the Group. The Group is expanding the sales network in the second-tier cities of PRC and already has certain returns. For the year ended 31 December 2012, the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB195.33 million and was increased by approximately 51% in compare with the same period of 2011. The turnover amount of the Noradrealine Bitartrate was approximately RMB49.44 million which recorded an increment rate of approximately 143%. The Tirofiban, an anti-platelet drug, also recorded a turnover of approximately RMB69.89 million.

- **Ophthalmic medicines and other pharmaceutical preparations**

  During the current financial year, the turnover amount of ophthalmic medicines increased by approximately 30.5% to approximately RMB15,191 million in compare with 2011. This is mainly due to the Group has explored a new sales channel for an ophthalmic medicine Polyvinyl Alcohol in Shanghai and thus recorded a turnover amount of approximately RMB27.5 million, which was increased by approximately 87% in compare with the same period of last year. Other products, such as antipyretics and analgesic medicine Analgin also maintained constant growth and recorded approximately RMB33.32 million turnover amount, which was increased by approximately RMB5.14 million in compare with the same period of last year.

Pharmaceutical intermediates

The pharmaceutical intermediates are also major products of the Group, which include pharmaceuticals raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acids products. For the year ended 31 December 2012, the turnover amount of pharmaceutical intermediates was approximately RMB532.20 million, while it was approximately RMB494.15 million in the same period of 2011.

- **Pharmaceutical raw materials**

  During the year ended 31 December 2012, the turnover amount of pharmaceuticals raw materials was approximately RMB306.78 million, while it was approximately RMB293.82 million in the same period of last year. The turnover amount of Chloramphenicol, a raw material of antibiotics which the Group commenced the development since 2011, was approximately RMB63.37 million and the increment rate is over 1 time.

- **Amino acids products**

  The Group is one of the largest manufacturers of amino acids products in the PRC. Other than the Acetyl Cysteine series, the Group is also developing other amino acids products such as L-cysteine HCI Monohydrate. For the year ended 31 December 2012, the turnover amount of the amino acids products of the Group was approximately RMB225.41 million, which was increased by approximately 12.5% in compare with the same period of last year. The Group also put many efforts to develop the export business to the Europe market, in which the export amount was increased from approximately RMB39.80 million in 2011 to approximately RMB47.60 million in the current year.

Steroid hormones and its intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. Certain products have passed the quality assurance test of Europe EDQM and received Europe COS certification. In order to cope with the growing demand of customers, the new plant in Jiangsu was in the testing stage. It is expected to commence production in the first half of 2013, and it will enhance the production capacity and technology for steroid hormones raw materials of the Group. During the current review period, the turnover amount of steroid hormones of the Group was approximately RMB204.67 million and was increased by approximately 10.0% in compare with the same period of last year.

- **Glucocorticoid**

  The Glucocorticoid products of the Group include Betamethasone and Dexamethasone, which are the raw materials for anti-inflammatory and anti-allergic medicines. The Betamethasone is currently staying at the leading position in the PRC. The turnover amount of these 2 Glucocorticoid products during this year was approximately RMB167.99 million, which was increased by approximately RMB7.02 million in compare with the same period of last year.

- **Sex Hormones**

  Cyproterone Acetate is one of the core products of the Group in sex hormones product series. It is male horomones used in treatment for prostate cancer and benign prostatic hyperplasia diseases. In 2012, the turnover amount was approximately RMB27.77 million with approximately 34.6% increment in compare with last year. This is mainly due to the production line in Zhejiang Xianle has increased the production capacity in order to cope with the demands of our products in the market.

Healthcare and chemical products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate, and the bio-pesticides and bio-feed additives products which are the principal products of the Wuhan Kernel Bio Tech Co., Limited (the "Wuhan Kernel"), a company acquired at the end of 2011. These products already have certain market shares and are well recongized by customers. During the year 2012, the turnover amount of the relevant products was approximately RMB429.34 million, while the turnover amount of the relevant products attributed to the Group in the same period of last year was approximately RMB270.22 million.

- **Taurine**

  The Group is one of the largest exporters of Taurine in the PRC, and we have done several production technology enhancement projects in the past years, which enhanced the product quality and production efficiency and provided returns to the Group. In 2012, the turnover amount of Taurine products was approximately RMB109.72 million and was increased by approximately 51.8% as compared with the same period of last year.

- **Calcium Superphosphate and Dimethyl Sulfate**

  Calcium Superphosphate is agrochemicals, and the product of the Group is one of the well-known brands in the PRC. In 2012, the turnover amount of Calcium Superphosphate was approximately RMB132.74 million and was increased by approximately 66.3%. Other products such as Nitromethane also provided approximately RMB30.64 million turnover and was increased by approximately RMB9.40 million as compared with 2011.

Distribution costs

Distribution costs of the year were approximately HK$340.31 million, while it was approximately HK$261.91 million in the same period of last year. In 2012, the main business strategy of the Group was exploration of new markets, especially the second-tier cities in the PRC, in order to capture market shares and build up solid market for the promotion of new products in the future. As a result it incurred more distribution costs than the previous year.

Administrative expenses

The administrative expenses of the Group in 2012 were approximately HK$236.99 million, which was increased by approximately 15.1% than last year. The increment was mainly contributed by the business restructuring and expansion of business scale.

Finance costs

For the year ended 31 December 2012, the finance costs of the Group were approximately HK$41.80 million, while they were approximately HK$26.41 million in 2011. The increment was mainly due to the addition of short-term loans which are financing the short-term operation expenses during the expansion of production capacities and reallocation of production plants.

Outlook and Future Prospects

The PRC, as the world's second largest pharmaceutical market after the United States, is under the spotlight on the international stage. According to the statistics set out in the "Blue Book of Medicine and Pharmaceuticals: Annual Report on China's Pharmaceutical Market (2012)" (醫藥藍皮書：中國藥品市場報告(2012)) published by the Chinese Academy of Social Sciences in February 2013, the total output of the pharmaceutical market of the PRC amounted to RMB926.1 billion in 2012. The compound annual growth rate of the pharmaceutical product market in the PRC during the period from 2005 to 2010 reached over 20%, and is expected to be approximately 12% each year for the period from 2013 to 2020.

Firstly, as to the characteristics of market development, the Chinese pharmaceutical market is characterized as: expands rapidly, has fierce competition, industrial concentration ratio remains low, and is materially influenced by the Government’s policies.

Secondly, as to the momentum of the pharmaceutical market development, according to the latest data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) in 2012 will reach RMB51,932.2 billion, representing a growth rate of 7.8% as compared to the previous year. Since 2010, China has become the world's second largest economy in terms of GDP. The continuous rapid growth of the China's economy has been serving as an important financial support for the development of both the society and the social security industry, which in turn provides opportunities of rapid development for the pharmaceutical market. In addition, according to the Study Report on the World Population Life Expectancy (United Nations 2003), the rate of population ageing in China has speeded up due to fertility policies and longer life expectancy. The percentage of elderly population (aged 60 and above) in China is expected to increase from 13.66% in 2010 to 18.57% in 2020, while the proportion of the China’s elderly over the total aged population in the world is expected to increase from 21% to 25%. As such, the development of China's economy and social security, combining with the population aging issues will become an important driving force for the sustainable development of PRC’s pharmaceutical market in the future.

Thirdly, as to the development of pharmaceutical industry, the State Council of China published the “Development Plans for the Bio-Industry” (《生物產業發展規劃》) in February 2012, which emphasized the full support for the development of such industries as bio-medicine, bio-agriculture, bio-manufacturing and bio-energy. In recent years, development focus of the global pharmaceutical market has gradually shifted from small-molecule chemical drugs to biotechnology drugs, which accounted for 13% of the global pharmaceutical market in 2006, and increased to approximately 17%. According to the Chinese Biotechnology Industry Report (《中國生物技術產業報告》) released by the China Association of Enterprises with Foreign Investment in January 2013, the total value of Chinese bio-pharmaceutical market in 2012 reached RMB18 billion, accounted for 2% of the global biotechnology drug market.

Embraced by the opportunities and challenges in the development of the pharmaceutical market of the PRC, the Group has, as for exploring our own potential, focused on several arduous tasks in the last year, including completion of relocation, construction and renovation of the four production bases and part of the production facilities for ophthalmic medicines, cerebro-cardiovascular medicines, specialized raw materials and healthcare products and also steroid hormones products, which ensures the production safety and rapid sales growth of our pharmaceutical products, particularly our core products. For industrial expansion, the Group has seized the opportunities raised from low industrial concentration ratio and industry restructuring. Through investment activities, such as asset acquisition and formation of joint ventures, the Group has further diversified our core pharmaceutical products portfolio and obtained certain bio-technology and products, and successfully entered the cancer medicine domain – a significant medicine treatment area.

In the coming years, the Group plans to: (1) leverage off the international certified high-tech production facilities which were newly built, for the enhancement of production and sales of our core products, such as cerebro-cardiovascular medicines, ophthalmic medicines and cancer medicines, further enhancing the gross profit margin of our products, as well as increasing our products’ market share. In addition, the Group will ride on our subsidiaries’ unique edges in the field of steroidal medicines to expand the market share of existing products, develop new world-class products and strengthen our market position in this area; (2) fully integrate the synergies among the members of the Group, particularly in the area of technology research and development and the production arrangement for industry chain, in order to enhance the Group’s overall production efficiency, lower the costs and improve the profitability; (3) make use of our subsidiaries' biotechnology platform to research and develop bio-pharmaceutical products, enhance production technology, reduce the costs of production of the existing products, and introduce new products. Biotechnology related pharmaceutical products will become an important driver of the Group's profit growth in the future.

Looking forward, the Group will ride on opportunities raised from the development of the PRC's pharmaceutical market, and strive to become one of the well-established pharmaceutical enterprises in China with optimal efficiency and rapid development, and one of the fastest growing enterprises in the pharmaceutical sector in the Hong Kong capital market, so as to maximize the returns for both the Group and its shareholders.

Financial resources and liquidity

As at 31 December 2012, the Group had current assets of HK$1,239,579,000 (31 December 2011: HK$1,087,425,000) and current liabilities of HK$1,956,654,000 (31 December 2011: HK$1,030,797,000). The current ratio was 0.63 at 31 December 2012 as compared with 1.05 at 31 December 2011.

The Group's cash and bank balances as at 31 December 2012 amounted to HK$304,588,000 (31 December 2011: HK$343,348,000), of which 6% were denominated in Hong Kong and United States Dollars and 94% in Renminbi.

As at 31 December 2012, the Group had outstanding bank loans of HK$1,421,333,000 (31 December 2011: HK$732,065,000). Included in the bank loans, there were bank loans of approximately HK$345,585,000 and HK$13,000,000 were denominated in US$ and HK$ respectively. All other bank loans are denominated in RMB and granted by banks in the PRC, Japan and Hong Kong. The interest rates charged by banks ranged from 3.08% to 7.50% (31 December 2011: 2.5% to 7.22%) per annum. These bank loans were pledged by assets of the Group with a net book value of HK$73,864,000 (31 December 2011: HK$189,047,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 189% at 31 December 2012 as compared with 115% at 31 December 2011.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2012, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Material Acquisitions and Disposals

On 14 February 2012, China Grand Pharmaceutical (Hong Kong) Limited (the "China Grand (Hong Kong)") and 武漢英納威管理咨詢有限公司(Wuhan Ying Na Wei Management Consultancy Limited [#])(the "Ying Na Wei") entered into a share transfer agreement, in which agreed that the China Grand (Hong Kong) may acquire 2.28% equity interest in Grand Pharm (China) held by the Ying Na Wei at a consideration of approximately RMB9.66 million. Such acquisition was completed in March 2012.

On 14 February 2012, the Company and the Ying Na Wei entered into a subscription agreement, in which Ying Na Wei may subscribe 41,240,000 new subscription shares at the subscription price of HK$0.333 per subscription share.

On 12 November 2012, Grand Pharm (China) and 湖北絲寶藥業有限公司 (Hubei C-Bons Pharmaceutical Co., Ltd [#]) (the "Hubei C-Bons") entered into a share transfer agreement, in which agreed that the Grand Pharm (China) may acquire the entire equity interest in 湖北舒邦藥業有限公司

(Hubei Wellness Pharmaceutical Co., Ltd. #) held by the Hubei C-Bons at a consideration of approximately RMB72.0 million. Such acquisition was completed in November 2012.

On 17 December 2012, 武漢和勤艾管理諮詢有限公司 (Wuhan Heqinlove Consultation Management Co., Ltd. #)(the "Heqinlove") and 武漢國有資產經營公司 (Wuhan State-Owned Assets Management Limited #) entered into a share transfer agreement, in which agreed that the Heqinlove may acquire 20.26% equity interest in Grand Pharm (China) held by the Wuhan State-Owned Assets Management Limited at a consideration of approximately RMB134.9 million. Such acquisition was completed in December 2012.

On 21 December 2012, the Heqinlove and 武漢開元科技創業投資有限公司 (Wuhan KeyWin Venture Capital Co., Ltd. #) entered into a share transfer agreement, in which agreed that the Heqinlove may acquire 3.39% equity interest in Grand Pharm (China) held by the Wuhan KeyWin Venture Capital Co., Ltd. at a consideration of approximately RMB20.064 million. Such acquisition was completed in December 2012.

After these 3 acquisitions of additional interest in the Grand Pharm (China), the Group beneficially owned approximately 99.60% equity interest of the Grand Pharm (China).

Significant Investment

There was no other significant investment during the year.

Contingent Liabilities

As at 31 December 2012, the directors of the Company were not aware of any material contingent liabilities.

Subsequent Events

In January 2013, the Group entered into a licensing agreement with Biohit Oyj (the "Biohit"), a Finnish company principally engaged in research, manufacture, sale of pharmaceutical and healthcare products, in related to the provision of right from Biohit to Grand Pharm (China) to use the intellectual property rights and know-how of Biohit to exclusively manufacture and distribute the acetaldehyde binding products developed by Biohit in the PRC. It is expected to provide profit return to the Group in the coming future.

On 22 February 2013, the Grand Pharm (China) and 黃石飛雲製藥有限公司 (HuangShi Feiyun Pharmaceutical Company Limited #)(the "HuangShi Feiyun") entered into a joint venture agreement to establish 遠大醫藥(中國)黃石飛雲製藥有限公司 (Grand Pharmaceutical (China) Huangshi Feiyun Company Limited #). Its registered capital will be RMB125 million, in which will be owned as to 60% and 40% by the Grand Pharm (China) and the HuangShi Feiyun respectively. RMB75,000,000 (equivalent to approximately HK$93,200,000) will be contributed by the Grand Pharm (China), and the balance of RMB50,000,000 will be contributed by HuangShi Feiyun.

Purchase, Sale or Redemption of Shares

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Employees and remuneration Policy

As at 31 December 2012, the Group employed about 4,800 staff and workers in Hong Kong and the PRC (31 December 2011: about 3,700). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Competing Interest

None of the directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

Model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of the Company's directors, all directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the year ended 31 December 2012.

Independence of Independent Non-executive Directors

The Company has received from each independent non-executive Director an annual confirmation for independence pursuant to Rule 3.13 of the Listing Rules. The independent non-executive Directors have confirmed that they are independent.

Code of corporate governance practices

The Code on Corporate Governance Practices (the "Former Code") was revised and renamed as the Corporate Governance Code (the "Revised Code") on 1 April 2012 contained in Appendix 14 to the Listing Rules.

The Company has complied with all the code provisions of the Former Code for the period from 1 January 2012 to 31 March 2012 and of the Revised Code for the period from 1 April 2012 to 31 December 2012 contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, except the following:

Code provision A.1.8 of the Revised Code requires that the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company has been reviewing a suitable and cost-efficient directors and officers liability insurance to cover the liabilities of its directors and officers during the period. An insurance policy was concluded by the Group in November 2012. As the date of this announcement, no claim has been reported.

Audit committee

The Company has established the audit committee for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. Currently, the audit committee is chaired by independent non-executive director Ms. So Tosi Wan, Winnie and other members include the two independent non-executive directors Mr. Lo Kai Lawrence and Dr. Pei Geng.

The audit committee has reviewed the annual result of the Group for the year ended 31 December 2012.

Remuneration committee

The Company has established the remuneration committee to consider the remuneration of all directors and senior management of the Company. Currently, the remuneration committee is chaired by independent non-executive director Ms. So Tosi Wan, Winnie and other members include the executive director Mr. Liu Chengwei and the independent non-executive director Mr. Lo Kai Lawrence.

Nomination committee

The Company has established the nomination committee to assist the Board in the overall management of the director nomination practices of the Company. Currently, the nomination committee is chaired by independent non-executive director Ms. So Tosi Wan, Winnie and other members include the executive director Dr. Shao Yan and the independent non-executive director Mr. Lo Kai Lawrence.

Annual General Meeting

The annual general meeting of the shareholders of the Company will be held at the Unit 3302, The Centre, 99 Queen's Road Central, Hong Kong on Friday, 24 May 2013 and the notice of annual general meeting will be published and dispatched to the shareholders in the manner as required by the Listing Rules in due course.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting of the Company to be held on 24 May 2013, the register of members of the Company will be closed. In order to be eligible to attend and vote at the annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 21 May 2013.

The English transliteration of the Chinese name(s) in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).

By order of the Board
China Grand Pharmaceutical and Healthcare Holdings Limited
Liu Chengwei
Chairman

Hong Kong, 25 March 2013

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Liu Chengwei, Mr. Hu Bo, Dr. Shao Yan and Dr. Zhang Ji and three independent non-executive directors, namely Ms. So Tosi Wan, Winnie, Mr. Lo Kai Lawrence and Dr. Pei Geng.

* *For identification purpose only.*