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 2014

The board of directors (the ''Board'') of China Grand Pharmaceutical and Healthcare Holdings Limited (the ''Company'') is pleased to announce the audited consolidated annual results for the year ended 31 December 2014 of the Company and its subsidiaries (collectively the ''Group''), together with comparative figures for the previous period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	Notes	**2014** *HK$'000*	2013 *HK$'000*
Turnover	*4*	**3,122,116**	2,658,282
Cost of sales		**(1,928,469)**	(1,771,752)
Gross profit		**1,193,647**	886,530
Other revenue and income		**117,192**	97,616
Distribution costs		**(608,155)**	(456,608)
Administrative expenses		**(372,436)**	(315,536)
Other operating expenses	*5*	**(13,804)**	(2,390)
Share of results of an associate		**569**	301
Finance costs	*6*	**(114,092)**	(77,633)
Profit before tax		**202,921**	132,280
Income tax expense	*7*	**(27,198)**	(26,994)
Profit for the year	*8*	**175,723**	105,286

	Notes	**2014** *HK$'000*	2013 *HK$'000*
Other comprehensive (loss)/income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(12,020)**	28,606
Change in fair value of available-for-sale financial assets, after tax		**-**	2,892
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year		**-**	(6,724)
Other comprehensive (loss)/income for the year, net of income tax		**(12,020)**	24,774
Total comprehensive income for the year, net of income tax		**163,703**	130,060
Profit for the year attributable to:			
- Owners of the Company		**175,208**	99,658
- Non-controlling interests		**515**	5,628
		175,723	105,286
Total comprehensive income/(loss) attributable to:			
- Owners of the Company		**164,025**	123,609
- Non-controlling interests		**(322)**	6,451
		163,703	130,060
Dividends	*9*	-	-
Earnings per share	*10*		
- Basic (HK cents)		**8.93**	5.08
- Diluted (HK cents)		**8.86**	5.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment		**2,291,205**	2,095,369
Prepaid lease payments		**272,010**	287,539
Interests in an associate		**6,332**	6,297
Available-for-sale financial assets		**39,844**	43,387
Deposits for acquisition of non-current assets		**5,018**	13,969
Goodwill		**124,682**	124,777
Intangible assets		**68,454**	82,782
Deferred tax assets		**1,294**	1,362
Prepayments		**22,358**	17,631
Loan receivables		**26,250**	20,493
		2,857,447	2,693,606
Current assets			
Financial asset at fair value through profit or loss		**50,000**	-
Inventories		**516,565**	562,283
Trade and other receivables	*11*	**981,749**	892,610
Loan receivables		**23,750**	33,301
Prepaid lease payments		**6,631**	4,761
Pledged bank deposits		**94,138**	129,023
Cash and cash equivalents		**460,401**	249,765
		2,133,234	1,871,743
Current liabilities			
Trade and other payables	*12*	**1,121,522**	1,306,257
Bank borrowings		**1,083,584**	1,262,267
Bank overdraft		**12,457**	-
Obligations under finance leases		**5,733**	5,516
Derivative financial instrument		**-**	1,310
Income tax payable		**49,510**	38,879
		2,272,806	2,614,229
Net current liabilities		**(139,572)**	(742,486)
Total assets less current liabilities		**2,717,875**	1,951,120
Non-current liabilities			
Bank borrowings		**420,000**	395,768
Convertible bonds		**245,659**	-
Deferred tax liabilities		**58,976**	50,200
Amount due to holding company		**21,866**	21,401
Deferred income		**661,014**	385,046
Obligations under finance leases		**1,993**	7,916
		1,409,508	860,331
Net assets		**1,308,367**	1,090,789

	Notes	**2014**	2013
		HK$'000	*HK$'000*
Capital and reserves attributable to owners of the Company			
Share capital		**19,620**	19,620
Reserves		**1,093,791**	857,263
Equity attributable to owners of the Company		**1,113,411**	876,883
Non-controlling interests		**194,956**	213,906
Total equity		**1,308,367**	1,090,789

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$"), which is the same as functional currency of the Company, and the functional currency of most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ 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 REPORTINGSTANDARDS ("HKFRSs")

In the current year, the Group has applied for the first time, the following amendments and new interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 – Investment Entities

The Investment Entities amendments apply to a particular class of business that qualify as investment entities. The term 'investment entity' refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKFRS 27 (2011) will have no material impact on the Group's financial performance and positions.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) – Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an investor and its Associate or Joint Venture [3]
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operation[4]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from contracts with customers[5]
HKAS 1 (Amendments)	Disclosure Initiative[4]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[4]
HKAS 19 (2011) (Amendments)	Defined benefit plans: Employee Contribution[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statement[4]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
[3] Effective for first annual HKFRS financial statements beginning on or 1 January 2016, with earlier application permitted
[4] Effective for annual periods beginning on or after 1 January 2016
[5] Effective for annual periods beginning on or after 1 January 2017
[6] Effective for annual periods beginning on or after 1 January 2018

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 recognition 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. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Directors anticipate that the adoption of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) - *Investment Entities: Applying the Consolidation Exception*

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

Amendments to HKFRS 11 – *Accounting for Acquisition of Interests in Joint Operation*

HKFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

HKFRS 14 *Regulatory Deferral Accounts*

HKFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous Generally Accepted Accounting Principles ("**GAAP**") requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents

HKFRS financial statements is not eligible to apply the standard.

The amendments are effective for first annual HKFRS financial statements beginning on or after 1 January 2016 with earlier application permitted.

HKFRS 15 *Revenue from contracts with customers*

The core principle of HKFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

Amendments to HKAS 1 *Disclosure Initiative*

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

Amendments to HKAS 19 (2011) *Employee Benefits*

The issuance of HKAS 19 (2011) *Employee Benefits* completes improvements to the accounting requirements for pensions and other post-employment benefits and HKAS 19 (2011) makes important improvements by:

- Eliminating an option to defer the recognition of gains and losses, known as the ‘corridor method’, improving comparability and faithfulness of presentation.

- Streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity’s day-to-day operations.

- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Amendments to HKAS 27 ***Equity Method in Separate Financial Statements***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

The Group is in the process of assessing the potential impact of the above new HKFRSs upon initial application but is not yet in a position to state whether the above new HKFRSs will have a significant impact on the Group's and the Company's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in note 3 to the 2014 audited consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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 in note 3 to the 2014 audited consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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$139,572,000 (2013:HK$742,486,000) as at 31 December 2014. 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 3 to the 2014 audited consolidated financial statements which has been audited by independent auditors, the Group has unused banking facilities of approximately HK$993,057,000 as at 31 December 2014; and (ii) 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 2014, 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 turnover from America, Europe and Asia.

Information about the Group's turnover 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:

	Turnover from external customers		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**2,232,025**	2,071,336	**2,816,309**	2,648,857
America	**403,456**	296,765	-	-
Europe	**254,107**	159,164	-	-
Asia other than the PRC	**232,417**	115,052	-	-
Others	**111**	15,965	-	-
Total	**3,122,116**	2,658,282	**2,816,309**	2,648,857

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

Information about major customers

For the years ended 31 December 2014 and 2013, none of the Group's sales to a single customer amounted to 10% or more of the Group's total turnover.

5. OTHER OPERATING EXPENSES

	2014	2013
	HK$'000	*HK$'000*
Amortisation of intangible assets	**12,422**	1,746
Written-off of available-for sale financial assets	**418**	-
Loss on sales and lease back transaction	**964**	644
	13,804	2,390

6. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**108,025**	76,524
Interest on bank overdraft	**285**	-
Interest on convertible bonds	**4,639**	-
Interest on amount due to holding company	**465**	471
Interest on finance lease	**678**	638
	114,092	77,633

7. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**31,657**	27,518
Deferred tax	**(4,459)**	(524)
	27,198	26,994

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong Profits tax at the rate of 16.5% (2013: 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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

	2014	2013
	HK$'000	*HK$'000*
Profit before tax is stated after charging:		
Depreciation of property, plant and equipment	**158,812**	95,127
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**6,675**	10,187
Amortisation of intangible assets (included in other operating expenses)	**12,422**	1,744
Total depreciation and amortisation	**177,909**	107,058
Share of tax of an associate	**158**	164
Cumulative gain on disposal of available-for-sale financial assets	**2,272**	6,724

9. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: 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:

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share calculation	**175,208**	99,658
Effect of dilutive potential ordinary shares:		
- Interest on convertible bonds (net of tax)	**3,874**	-
- Deferred tax arising from convertible bonds	**(766)**	-
Earnings for the purpose of diluted earnings per share calculation	**178,316**	99,658

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,962,041**	1,962,041
Effect of dilutive potential ordinary shares:		
- Convertible bonds	**50,898**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,012,939**	1,962,041

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

11. TRADE AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables, net	**349,547**	321,976
Bills receivables	**314,940**	324,225
Other receivables, deposits and prepayments	**341,557**	269,515
Less: impairment loss on other receivables	**(24,295)**	(23,106)
	981,749	892,610

The Group generally 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.

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**324,148**	292,543
91-180 days	**28,951**	27,273
181-365 days	**8,305**	11,682
Over 365 days	**20,387**	21,781
	381,791	353,279
Less: accumulated impairment	**(32,244)**	(31,303)
	349,547	321,976

12. TRADE AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**290,609**	318,243
Bills payables	**364,721**	389,551
Accrued charges and other payables	**466,192**	598,463
	1,121,522	1,306,257

The aged analysis of trade payables is set out below:

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**212,334**	205,376
Over 90 days	**78,275**	112,867
	290,609	318,243

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 consolidated financial statements which indicate that the Group had net current liabilities of approximately HK$139,572,000 as at 31 December 2014. 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

The Group is mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products. The core products of pharmaceutical preparations include cerebro-cardiovascular medicines, ENT products such as ophthalmic medicines, medicines for anti-bacterial and antibiotics, antipyretic and analgesic, etc. The major products of pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and healthcare core products include taurine, etc.

Target to be one of the largest pharmaceutical and health products enterprises in China, the Group has always committed to maintain the production quality and sales growth of its existing products. Meanwhile, the Group continuously endeavor to develop new medicines as well as through acquiring other potential pharmaceutical manufacturers to enlarge the pool of its core products and the sales segments. In addition to the acquisition of 70.84% equity interests in Beijing Rui Yao Technology Limited ("Rui Yao") in 2013 which enriched the Group's products varieties in the cerebro-cardiovascular medicines segment and expanded the sales networks, the Group has also formed Grand Pharmaceutical Huangshi Feiyun Company Limited ("Grand Huangshi Feiyun") in the same year. The formation of Grand Huangshi Feiyun further enlarged the market segments of cerebro-cardiovascular medicines for the Group and enhanced its antibiotics products varieties, and led the Group to enter the antitumor medicines area, these two companies start to bring in the contribution to the Group.

To carry through the Group's proactive business strategies among the years, the Group entered into a sales and purchase agreement in December 2014, acquires up to 100% equity interests of Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming"). Tianjin Jingming mainly engages in research and development, manufacture and sales of ophthalmic medical devices and surgical products, some of its products are exclusive in the PRC market and has a great sales potential. Furthermore, the ophthalmic products and techniques of Tianjin Jingming together with the Group's existing products will create a significant synergy effect, hence, the Directors believed upon the completion of the acquisition, Tianjin Jingming will provide significant assist to the Group in developing the ophthalmic medical device market. The Group has completed part of the acquisition by acquiring 73.3% equity interests of Tianjin Jingming in January 2015.

In addition, the Group entered into a purchase and subscription of registered capital agreement in June 2014, proposed to acquire 52.25% equity interests of Shanghai Weicon Optical Co., Ltd. ("Shanghai Weicon") at a consideration of USD57,750,000. It will further invest USD11,000,000 in Shanghai Weicon after the completion of the said acquisition and thus it will finally hold 55% equity interests of Shanghai Weicon. Shanghai Weicon is a leading contact lenses and solutions manufacturer in PRC, and this acquisition will allow the Group to continue to pursue its long-term diversified business strategy. The Directors believed that upon the completion of the transaction, Shanghai Weicon will further strengthen and enlarge the Group's revenue sources as well as to bring in positive return to the Shareholders. Up to the date of this announcement, this transaction is still in progress.

To cope with the needs of daily working capital of the Group and meet the financing needs of above purchase and subscription of registered capital agreement, the Group entered into convertible bonds subscription agreements with 2 investors in June 2014. In October 2014, the issuance of convertible bonds had been completed, the proceed of the aggregated principal amount in total was HK$330,000,000.

In addition to the above acquisitions, to tie with the sustainable demand of research and development of the Group, the Group entered into a cooperative agreement with the well-known Institute of Materia Medica, Chinese Academy of Medical Sciences ("CAMS") in September 2014. Both parties will join together in participating in the research and development, production and supply of orphan diseases medication, aimed to provide a timely opportunity for those rare diseases patients to receive a proper treatment who temporarily do not have a suitable cure. Meanwhile, it will also enable the Group to have a timely introduction of competitive and leadership products so that the Group will become a pioneer of orphan diseases medications and secured the market position.

The Group continuously focuses on its self-business in term of improving the production technology and modulating the production structure more effectively to encourage the production growth and enlarge the sales networks so as to achieve a sustainable business growth. In 2014, the Group’s two new production plants located in Jiangsu and Wuhan commerce official operations and the production volume recorded a certain degree increase, the Directors believed that this will further strengthen the quality and supply of the Group's products in the coming years.

Turnover

For the year ended 31 December 2014, the Group recorded a turnover amount of approximately HK$3,122.12 million, which increased by approximately 17.4% in compare with the same period of last year. The average gross profit margin of the Group was approximately 38.2%, which increased by approximately 4.9% comparing with 2013.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products are cerebro-cardiovascular, ophthalmic, antibacterial and analgesic and antipyretic. For the year ended 31 December 2014, the turnover amount of pharmaceutical preparations was approximately RMB966.77 million and was increased by approximately by 30.4% in compare with same period of last year.

- **Cerebro-cardiovascular medicines**

  The cerebro-cardiovascular medicines are the core product and the business growth engine of the Group. In addition to the expansion of the new markets, the Group launched a technical training campaign in the key regional hospitals during the year which strengthened the proper prescription of dosage to the market. For the year ended 31 December 2014, the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB394.41 million and was increased by approximately 39.5% compared with the same period in 2013. In which, the turnover amount of the Noradrenaline Bitartrate injection and Adrenaline Hydrochloride injection which mainly used for the emergency purpose, was approximately RMB158.17 million, increased by approximately 30.0%; and the Simvastatin Capsules contributed approximately RMB32.7 million to the Group’s revenue, increased by approximately 16.7%.

- **Ophthalmic medicines and other pharmaceutical preparations**

  During the financial year, ophthalmic medicine recorded a turnover amount of approximately RMB212.84 million, which increased by approximately 19.9% in compare with 2013. The non-prescription ophthalmic medicine, Polyvinyl Alcohol eyedrops, recorded turnover amount of approximately RMB63.97 million and increased by approximately 28.4% in compare with same period of last year. This is mainly due to the reinforcement of media promotions and branding including the traditional TV advertising, vehicles advertisements and the e-commerce involvement, the sales places have covered most of the first-tier cities such as Shanghai and Guangdong, etc. The Group’s products of Levofloxacin Hydrochloride Eye Gel and Bing Zhen Qing Mu eyedrops also recorded a turnover amount of approximately RMB38.52 million and RMB14.93 million respectively, increased by approximately 28.7% and 65.7% respectively in compare with the same period in last year. In which, Bing Zhen Qing Mu eyedrops targeted to the young pseudo myopia symptoms which is a great potential segment and will become one of the Group core developing products. The Anti-viral Oral Solutions, a product of Grand Huangshi Feiyun, and the antitumor products Hydroxyl camptothecine injection also recorded a turnover amount of approximately RMB36.97 million and RMB21.33 million respectively.

Pharmaceutical Intermediates

The pharmaceutical intermediates are also major products of the Group which include pharmaceutical raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acid products. For the year ended 31 December 2014, the turnover amount of pharmaceutical intermediates was approximately RMB658.22 million, while it was approximately RMB580.86 million in the same period of 2013, increased by approximately 13.3% in compare with the same period of last year.

- **Pharmaceutical raw materials**

  During the year ended 31 December 2014, the turnover amount of pharmaceutical raw materials was approximately RMB349.52 million, while it was approximately RMB326.62 million in the same period of last year. The Metronidazole recorded an increment of approximately 39.2% to a turnover amount of approximately RMB51.83 million, while the turnover amount of a raw material of antibiotics, Chloramphenicol, recorded approximately RMB77.68 million, increased approximately 18.5% in compare with the same period in last year.

- **Amino acids products**

  The Group is one of China's largest manufacturer of amino acids products, during the financial year, the turnover amount of the amino acids products was approximately RMB308.70 million, which increased by approximately 21.4% in compare with the same period of last year. The major products such as N-acetyl-L-cysteine recorded the turnover amount of approximately RMB45.93 million, increased approximately 9.8%. In addition to the increment of export sales, the enhancement of production capacity in the new plant and the production technology resulted to the provision of our products to high-end market. Due to the market demand increment of L-cysteine hydrochloride and L-cysteine hydrochloride anhydrate, the recorded turnover amount during this year increased approximately RMB25.58 million to approximately RMB107.62 million.

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. Some of the products passed a quality inspection of European EDQM and certified by COS. In 2014, the newly constructed production facilities in Jiangsu was completed and gradually commence production, which will enhance the steroid hormones intermediates production capacities of the Group and enhance the production technologies in order to cope with the market needs. During the current review period, the turnover amount of steroid pharmaceutical intermediates was approximately RMB267.96 million, which increased by approximately 4.4% in comparison with the same period of last year.

- **Glucocorticoid and Sex Hormones**

  In 2014, the Glucocorticoid of the Group including Betamethasone and Dexamethasone, recorded a turnover amount of approximately RMB160.91 million, which was increased by approximately 12.5% in compare with the same period of last year. The reason of such increment was mainly due to new customer pitching efforts in the targeting Indian market, encouraged the sales growth in these areas. The turnover amount of sex hormones was approximately RMB37.85 million.

- **Prednisone Series**

  Prednisone Series, a product of the Group newly launched at the end of 2013, was produced at the new production facility in Jiangsu. For the year ended 31 December 2014, the turnover amount of the Prednisone was approximately RMB53.75 million and mainly exported to the Indian market. Currently, the Group is under the progress of application of international certifications, and expanding footprint to the international market and gain market share by adding various sales channels.

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 already have certain market shares and are well recognized by customers. In 2014, the turnover amount of the relevant products was approximately RMB587.68 million, while the turnover amount of the relevant products in same period in last year was approximately RMB527.71 million with an increment of 11.4%.

- **Taurine**

  As one of China’s largest exporters of Taurine, to tie with the business development and maintains the leading position of the Group, apart from carried out a number of technical and production improvements to enhance the products quality and efficiency, the Group introduced B2B sales model in 2014 and has now gains a number of foreign branded customers, partnership covered India, Russia and South Korea, etc. For the year 2014, the turnover of Taurine was approximately RMB 190.64 million, besides benefiting from international sales and attracting new customers abroad, the purchase quantity of existing customers maintained stable.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the year were approximately HK$608.16 million and HK$372.44 million respectively, while it was approximately HK$456.61 million and HK$315.54 million respectively in the same period of last year. The increment of these two expenses were mainly due to the execution of the strategy in related to the expansion of market share and resulted from an approximately 17.4% increment of turnover amount. It is also contributed by the reallocation of the production plant.

Finance Costs

For the year ended 31 December 2014, the finance costs of the Group were approximately HK$114.09 million, while they were approximately HK$77.63 million during the same period of 2013. The increment was mainly due to the increase of bank loans to cope with the short term working capital need for production capacity expansion and the production plants relocation. It is also contributed by the interest expenses incurred for the issuance of convertible bonds to cope with the financing needs of the projects in place and operational expenses.

Outlook and Future Prospects

The development model of the PRC's macroeconomic is currently under deep and substantial changes. The new economic development model gradually focus on the quality and structure of GDP, while previously only focused on the extrinsic value of GDP by overusing the resources for future development. A recent statistics from The National Bureau of Statistics of the People's Republic of China showed that the revenue and profit of the PRC pharmaceutical industry in 2014 was RMB2,332.56 billion and RMB232.22 billion respectively, with an increment of 12.9% and 12.1% in compare with 2013. Although the growth rate recorded a slightly return in compare with 18.0% and 12.8% in 2013, it was still much higher than the 7.4% of 2014 GDP growth rate in the PRC.

In the recent years, the global and the PRC pharmaceutical markets is undergoing critical changes and the development pattern is currently under an important transformation process. Firstly, in terms of the new drug registration, the China Food and Drug Administration ("CFDA") has approved 501 new drug applications in 2014, increased by approximately 20% in compare with 416 cases in 2013. This implied that both medical authorities and pharmaceutical enterprises are attempted to develop pharmaceutical innovations. Secondly, in terms of the development of bio-medicines, the global pharmaceutical industry is currently under the challenge of transforming into bio-medicines. Many well-known international pharmaceutical enterprises have already obtained the pioneer advantages in this field. Comparing with developed countries, bio-medicines in the PRC only occupied a small segment in the whole pharmaceutical industry, which represents there will have a huge room for development. Thirdly, in terms of the medical devices, according to the statistics of China Association for Medical Devices Industry, there are about 14,900 medical devices manufacturers in the PRC and the market scale is over RMB300 billion, however, 70% of the market shares are occupied by foreign brands. In February 2014, CFDA issued "Special Review and Approval Procedure for Innovative Medical Devices" to encourage innovation of medical devices by setting up special approval channel to speed up the product launch to the market. Fourthly, in terms of orphan drugs, in certain countries like United States, Europe and Japan, etc. started research and development in an earlier stage, especially in recent years, many multi-national pharmaceutical enterprises switched their core business strategies to orphan drugs. Orphan drugs suddenly become one of the hottest segments in the market, some of these potential medicines might have a "deep impact" to the future pharmaceutical market. Fifthly, in terms of the investment of pharmaceutical industry, a new trend occurs in the global pharmaceutical industry, which are the costs of research and development increase continuously, the expiry of patent drugs and the competitiveness of generic drugs, and thus resulted in massive acquisitions with USD multi-billions in the pharmaceutical market and triggered the following 3 acquisition trends: (1) pharmaceutical companies enlarge their product lines by merge and acquisitions in order to expand the market share of their strength field; (2) pharmaceutical companies increase their product varieties through merge and acquisitions in order to enhance their competitiveness and complement products in different areas to ensure the newly merged company has a stronger bargaining power in the market; (3) pharmaceutical companies remove non-core business segments and put more efforts on the core field to enhance research efficiency, and thus allowing both parties of the merger and acquisitions could use their own strengths to obtain economic of scale.

In view of the revolution of the norm of the PRC pharmaceutical market, with reference to the global pharmaceutical market development experiences, the Group will proactively explore and take action in the following directions to ensure a high speed growth. First of all, by fully utilization of the advantage of new production facilities which obtained new version of GMP, the Group can strengthen the quality control of pharmaceutical medicines and ability of product combination, highlight the synergy effects of industrial chain and product pools of the Group, ensure the steady growth of revenue. Secondly, explore new products in medical devices market, vigorously develop core pharmaceutical segments and high value disposable products, in order to provide a highlight for the product variety and earnings growth. Thirdly, in September 2014, the Group and the Institute of Materia Medica, Chinese Academy of Medical Sciences entered into a cooperative agreement in related to the research and development agreement of orphan drugs, and it is planned to launch important orphan drugs in the most shorten period of time with an aim to become the pioneer of the orphan drug field and bring social benefits and economic benefits for the Group. Fourthly, expand product pipelines through merger and acquisitions, especially focus on the core therapeutic areas, such as cerebro-cardiovascular, ENT (including ophthalmology), and obtain breakthrough of innovative drugs and powerful medicines in the area of bio-medicines and genetic technologies, in order to build a platform for the supreme products of the Group in the forthcoming 10 years. Fifthly, the Group will co-operate with well-known venture capital institutes to extend the asset acquisition vision to the international market, to lay a solid foundation of becoming an international pharmaceutical enterprise in the future.

In conclusion, the Group will continuously uphold the basic strategy of maintaining quality in the first place and then following by steadily development. The Group will put effort in seeking for the deep potential in the core product areas and take full advantage of the PRC's national development policies related to the pharmaceutical industry, make innovative breakthroughs, accelerate the pace of enterprises to become bigger and stronger. It is our objective to become one of the famous PRC pharmaceutical enterprises with competitiveness in the international market within a short period of time, and provide fruitful return to the shareholders of the Group.

Financial Resources and Liquidity

As at 31 December 2014, the Group had current assets of HK$2,133,234,000 (31 December 2013: HK$1,871,743,000) and current liabilities of HK$2,272,806,000 (31 December 2013: HK$2,614,229,000). The current ratio was 0.94 at 31 December 2014 as compared with 0.72 at 31 December 2013.

The Group’s cash and bank balances as at 31 December 2014 amounted to HK$460,401,000 (31 December 2013: HK$249,765,000), of which approximately 5% were denominated in Hong Kong and United States Dollars and 95% in Renminbi.

As at 31 December 2014, the Group had outstanding bank loans of approximately HK$1,503,584,000 (31 December 2013: HK$1,658,035,000) and bank overdraft of approximately HK$12,457,000 (31 December 2013: Nil). Included in the bank loans, there were bank loans of approximately HK$441,584,000 were denominated in USD. All other bank loans are denominated in RMB and granted by banks in the PRC and Hong Kong. The interest rates charged by banks ranged from 1.9% to 7.8% (31 December 2013: 1.0% to 7.8%) per annum, in which approximately HK$691,626,000 bank loans were charged at fixed interest rates. These bank loans were pledged by assets of the Group with a net book value of HK$118,443,000 (31 December 2013: HK$314,862,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders’ equity, was 135% at 31 December 2014 as compared with 189% at 31 December 2013.

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 2014, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Material Acquisitions and Disposals

On 23 June 2014, Grand Pharm (China) entered into a purchase and subscription of registered capital agreement with AIM Global Holdings Limited, pursuant to which Grand Pharm (China) agreed to acquire 52.25% equity interest of Shanghai Weicon Optical Co., Ltd. at a consideration of USD57,750,000 and acquire addition registered capital at a consideration of USD11,000,000. Up to the date of this announcement, this transaction is still in progress.

On 22 December 2014, Grand Pharm (China) entered into an acquisition agreement with Wu Liang and Fan Li Jin, pursuant to which Grand Pharm (China) agreed to acquire up to 100% equity interest of Tianjin Jingming New Technology Development Co. Ltd. at a consideration of RMB141,300,000. The Group has completed part of the acquisition by acquiring 73.3% equity interest of Tianjin Jingming in January 2015.

Significant Investment

There was no other significant investment during the year.

Contingent Liabilities

As at 31 December 2014, the directors of the Company were not aware of any material contingent liabilities.

Events after the Reporting Period

No subsequent events occurred after 31 December 2014, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Purchase, Sale or Redemption of Shares

During the year ended 31 December 2014, 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 2014, the Group employed about 5,400 staff and workers in Hong Kong and the PRC (31 December 2013: about 5,400). 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

Save that Mr. Liu Chengwei, the chairman and an executive director, who is director of some pharmaceutical companies in the PRC (including China Grand Enterprises Incorporation and Huadong Medicine Company Limited) and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the directors are aware of, no 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 2014.

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 Company has complied with all of the code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2014.

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 Group's audited annual financial results for the year ended 31 December 2014 has been reviewed by the audit committee.

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, 5 June 2015 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, 3 June 2015 to Friday, 5 June 2015 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 5 June 2015. 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 4:30pm on Tuesday, 2 June 2015.

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

Hong Kong, 24 March 2015

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.*