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 2016

The board (the "**Board**") of directors (the "**Directors**") 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 2016 of the Company and its subsidiaries (collectively the "**Group**"), together with comparative figures for the previous period as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*4*	**3,696,164**	3,245,546
Cost of sales		**(1,963,736)**	(1,895,062)
Gross profit		**1,732,428**	1,350,484
Other revenue and income		**102,499**	138,325
Distribution costs		**(902,724)**	(641,662)
Administrative expenses		**(421,486)**	(431,575)
Other operating expenses	*5*	**(12,125)**	(12,181)
Share of results of associates		**(2,950)**	(5,673)
Finance costs	*6*	**(181,678)**	(157,155)
Profit before tax		**313,964**	240,563
Income tax expense	*7*	**(44,602)**	(40,156)
Profit for the year	*8*	**269,362**	200,407

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(133,784)**	(64,759)
Other comprehensive loss for the year, net of income tax		**(133,784)**	(64,759)
Total comprehensive income for the year, net of income tax		**135,578**	135,648
Profit for the year attributable to:			
- Owners of the Company		**269,143**	180,906
- Non-controlling interests		**219**	19,501
		269,362	200,407
Total comprehensive income/(loss) attributable to:			
- Owners of the Company		**174,057**	116,640
- Non-controlling interests		**(38,479)**	19,008
		135,578	135,648
Dividends	*9*	**-**	-
Earnings per share	*10*		
- Basic (HK cents)		**13.06**	9.22
- Diluted (HK cents)		**12.48**	8.89

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**2,643,606**	2,543,235
Investment properties		**45,650**	-
Prepaid lease payments		**276,787**	269,520
Interests in associates		**231,552**	224,520
Available-for-sale financial assets		**94,166**	97,332
Deposits for acquisition of non-current assets		**38,874**	7,592
Goodwill		**481,075**	380,589
Intangible assets		**796,418**	651,305
Deferred tax assets		**1,160**	1,244
Prepayments		**51,566**	37,743
Loan receivables		**-**	14,414
		4,660,854	4,227,494
Current assets			
Financial asset at fair value through profit or loss		**11,206**	1,201
Inventories		**636,226**	621,702
Trade and other receivables	*11*	**1,310,067**	1,048,763
Loan receivables		**-**	33,632
Prepaid lease payments		**8,332**	7,947
Pledged bank deposits		**30,844**	38,659
Cash and cash equivalents		**484,418**	653,987
		2,481,093	2,405,891
Current liabilities			
Trade and other payables	*12*	**1,363,970**	1,181,915
Bank and other borrowings		**1,663,874**	1,962,484
Obligations under finance leases		**48,220**	43,616
Amounts due to related companies		**21,680**	-
Income tax payable		**59,579**	60,744
		3,157,323	3,248,759
Net current liabilities		**(676,230)**	(842,868)
Total assets less current liabilities		**3,984,624**	3,384,626
Non-current liabilities			
Bank and other borrowings		**713,825**	762,136
Convertible bonds		**276,453**	258,629
Bond payables		**111,237**	-
Deferred tax liabilities		**189,082**	143,877
Amount due to holding company		**23,247**	23,057
Deferred income		**585,500**	634,344
Obligations under finance leases		**109,193**	158,244
		2,008,537	1,980,287
Net assets		**1,976,087**	1,404,339

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Capital and reserves attributable to owners of the Company			
Share capital		**22,370**	19,620
Reserves		**1,680,064**	1,140,048
Equity attributable to owners of the Company		**1,702,434**	1,159,668
Non-controlling interests		**273,653**	244,671
Total equity		**1,976,087**	1,404,339

Notes:

1. GENERAL INFORMATION

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 Group is principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products, in the People's Republic of China (the "**PRC**").

The Directors consider that Outwit Investments Limited (the "**Outwit**") is the parent company of the Company, and China Grand Enterprises Incorporation (the "**China Grand**") is the ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("**RMB**"). The Board considered that it is more appropriate to present the consolidated financial statements in HK$ 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 (the "**new HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which are effective for the Group's financial year beginning on 1 January 2016. A summary of the new HKFRSs is set out as below:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operation
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards that have been issued but are not yet effective:

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 4 (Amendments)	Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HKAS 7 (Amendments)	Disclosure Initiative[1]

HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined.

The Directors anticipate that the application of HKFRS 9 and HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 and HKFRS 15 until the Group performs a detailed review.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the note 3 to the 2016 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 (the "**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 the note 3 to the 2016 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 have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$676,230,000 (2015:HK$842,868,000) as at 31 December 2016. The Directors have taken the following factors to consider the future liquidity which include, but not limited to, the followings:

i. Alternative sources of external funding

The Group has been approved by the China Securities Regulatory Commission to issue corporate bonds to qualified investors in an aggregate amount of not more than RMB490,000,000 (approximately HK$549,096,000) to acquire an external funding. During the year ended 31 December 2016, the Group has issued corporate bonds of amount of RMB100,000,000 (approximately HK$112,061,000).

The Company can issue certain amount of new shares in according to the outstanding general mandate as approved by the shareholders of the Company in the last Annual General Meeting, and in the upcoming Annual Generate Meeting, the Board will seeking the shareholders' approval in regarding a general and unconditional mandate to allot, issue and deal with the new shares up to a maximum of 20% of the issued share capital of the Company as at the date of passing of the relevant resolution.

ii. Attainment of profitable and positive cash flow operations

The Directors have reviewed the forecast and considered the Group will have positive net cash inflow in the coming 12 months.

iii. Necessary facilities

The Group is in the process of negotiating with its bankers for the renewal and additional of bank facilities, and the restructuring of bank loan combination with an aim to transform the short-term bank loans to long-term bank loans, in order to meet the Group's working capital and financial requirements in the next 12 months.

iv. Financial support and amount due to holding company

Outwit has agreed to provide the financial support for not less than 12 months from the year ended 31 December 2016 and also agreed not to request the repayment for the amount due of approximately HK$23,247,000 (2015: HK$23,057,000) in the following 12 months.

In the opinion of the Directors, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

4. REVENUE AND SEGMENT INFORMATION

For the year ended 31 December 2016, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products. The Board, 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 revenue 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**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**2,959,845**	2,426,582	**4,341,311**	3,894,527
America	**232,835**	209,290	-	-
Europe	**266,479**	290,972	-	-
Asia other than the PRC	**214,087**	304,397	-	-
Others	**22,918**	14,305	-	-
Total	**3,696,164**	3,245,546	**4,341,311**	3,894,527

Note: Non-current assets excluded available-for-sale financial assets, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2016 and 2015, 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

	2016	2015
	HK$'000	*HK$'000*
Amortisation of intangible assets	**12,125**	12,181

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank borrowings:		
- wholly repayable within five years	**135,635**	121,350
- not wholly repayable within five years	**3,293**	1,908
Interest on bond payables	**558**	-
Interest on convertible bonds	**27,724**	22,870
Interest on amount due to holding company	**451**	462
Interest on finance leases	**14,017**	10,565
	181,678	157,155

7. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
The PRC Enterprise Income Tax	**54,580**	47,542
Deferred tax	**(9,978)**	(7,386)
	44,602	40,156

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% (2015: 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 PRC 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 PRC tax regulations, High-New Technology Enterprise (the "**HNTE**") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax (the "**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

	2016	2015
	HK$'000	*HK$'000*
Profit for the year is stated after charging:		
Depreciation of property, plant and equipment	**207,303**	179,197
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**8,602**	8,102
Amortisation of intangible assets (included in other operating expenses)	**12,125**	12,181
Total depreciation and amortisation	**228,030**	199,480
Share of tax of associates	**1,995**	691

9. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: 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:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share calculation	**269,143**	180,906
Effect of dilutive potential ordinary shares:		
- Interest on convertible bonds (net of tax)	**23,150**	19,096
- Deferred tax arising from convertible bonds	**(4,574)**	(3,774)
Earnings for the purpose of diluted earnings per share calculation	**287,719**	196,228

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**2,061,325**	1,962,041
Effect of dilutive potential ordinary shares:		
- Convertible bonds	**244,444**	244,444
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,305,769**	2,206,485

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds were diluted.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables, net	**696,607**	465,703
Bills receivables	**362,025**	289,624
Prepayments	**141,152**	153,283
Deposits paid	**577**	579
Other tax receivables	**38,301**	49,852
Other receivables, net	**71,405**	88,288
Interest receivables	**-**	1,224
Prepaid rental	**-**	210
	1,310,067	1,048,763

The Group generally allows a credit period of 30 – 180 days (2015: 30 – 90 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**406,881**	412,012
91-180 days	**57,964**	40,645
181-365 days	**237,799**	18,954
Over 365 days	**29,712**	19,026
	732,356	490,637
Less: accumulated impairment loss	**(35,749)**	(24,934)
	696,607	465,703

12. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**360,695**	357,921
Bills payables	**341,102**	295,022
Accruals and other payables	**473,646**	408,934
Deposits received	**801**	-
Other tax payables	**110,579**	50,212
Receipts in advance	**77,147**	69,826
	1,363,970	1,181,915

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**227,327**	266,619
Over 90 days	**133,368**	91,302
	360,695	357,921

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's annual financial statements for the year ended 31 December 2016:

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standard (the "**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 3 to the consolidated financial statements, which indicates that as at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately HK$676,230,000. As stated in note 3, these events or conditions, along with other matters as set forth in note 3, indicate that a material uncertainty exist that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products. The core pharmaceutical and medical devices products of the Group mainly applied in the cerebro-cardiovascular emergency and Eye, Nose & Throat (the "**ENT**") treatment.

In view of the situation that the annual growth of the overall economic environment and the pharmaceutical industry in the PRC is slowing down, and also under the pressure and effect from the healthcare reform, pharmaceutical products tendering and price adjustment, the Group still recorded good performance as a result of our vigorous efforts. For the year ended 31 December 2016, the revenue of the Group was approximately HK$3,696.16 million, and was increased by 13.9% as compared with the same period of 2015. However, if taken out the depreciation effect of RMB, the revenue of the Group in 2016 was increased by approximately 20.2% as compared with the same period of 2015.

During the recent years, the Group has invested huge resources in the core pharmaceutical preparations and medical devices sector in order to optimize its product matrix, including products research and development, production technique enhancement and merge and acquisition in order to enlarge the product categories and reserve, which substantially increased the synergy effect of the Group and its operation efficiency. Such strategy has already provided a positive effect and the proportion of turnover contributed by the pharmaceutical preparations and medical devices sector has substantially increased. This resulted in the overall gross profit of the Group for the year ended 31 December 2016 increased by approximately HK$381.94 million and the average gross profit margin increased by approximately 5.3% to approximately 46.9%. As a result, the profit attributable to the owners of the Company also substantially increased to approximately HK$269.14 million, which is increased by approximately 48.8% in compare with the same period of last year. In the meanwhile, due to the reporting currency factor, the net profit mentioned above did not reflect the reduction of profit by approximately HK$17.35 million due to the depreciation of RMB.

In 2016, the Group achieved a significant improvement in the revenue structure. Within the three major product sectors, the revenue from pharmaceutical preparations and medical devices, bio-technology products and nutrition products together with the specialized pharmaceutical raw materials and other products were approximately RMB1,701.79 million, RMB735.59 million and RMB724.93 million respectively, in which the revenue from the pharmaceutical preparations and medical devices was the first time recorded more than a half of the Group's total revenue and reached approximately 53.8%. This was an important result for the Group in moving forward to be a modern pharmaceutical enterprise, and also was an important milestone for the Group taking the pharmaceutical preparations and medical devices as the core product in its long term development strategy. On the other hand, from the point of view in considering the operation ability, during 2016 the EBITDA (earnings before interest, taxation, depreciation and amortization) of the Group was approximately HK$723.67 million and was increased by approximately 21.2% in compared with the same period of last year. This represents the Group has strong ability in operation and profitability, and also has large potential for further development.

As a result of the years' efforts, the Group has become one of the leading enterprises in the ENT and ophthalmic sector in the PRC, and has become a well-known enterprise with significant impact in the cerebro-cardiovascular emergency sector.

During the recent years, the Group devoted much efforts to the research and development of new products with focusing on the major areas including orphan drugs, biologics, first chemical generics drugs, innovative drugs and high-end medical devices, etc. The investments in the previous years have gradually achieved their results. During the year ended 31 December 2016, the Group obtained 9 clinical trial approvals, 2 technology transfer approvals, applied 32 invention patents, and obtained 19 licensing approvals. There are still more than 20 research and development projects on-going and mainly focuses on medicines and medical devices in cerebro-cardiovascular and ENT sectors, in which one of the projects is classified as Class II innovative drugs, 15 projects are classified as Class III generic drugs.

In 2016, the Group has 3 types of anti-glaucoma medicines been listed in the 首仿藥優先審評名單 (Priority Review List of First Generics Drugs#) announced by the Center for Drug Evaluation of the China Food and Drug Administration. This represents the evaluation time of these 3 products will be shortened and can speed up the progress of the commercial launch. It is expected that each of these products may contribute over a hundred million of turnover. During February 2017, the Ministry of Human Resources and Social Security of the PRC published a high-profile document - the "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)". Being selected into the aforesaid list is an important indicator on the competitiveness of the market participants. There were 203 products of the Group being recorded in this new list, including 10 exclusive or national protected Chinese medicines. The Group's exclusive ENT product Qie Nuo (Eucalyptol Limonene and Pinene), He Xue Ming Mu Pian (和血明目片), Fu Ming Pian (復明片), Jin Sang series (金嗓系列), Levofloxacin and also cerebro-cardiovascular medicines such as Li Shu An (利舒安) and Simvastatin, etc., were also listed in the aforesaid list.

Furthermore, in June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in 西安碑林藥業股份有限公司 (Xian Beilin Pharmaceutical Company Limited#) (the "**Xian Beilin**") at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is a national hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has been focused on the ENT medicine for many years. Its core products include two series of ophthalmologic and laryngological Chinese medicine which have good reputation and market share in the PRC and certain products are national protected Chinese medicines. The existing and developing products of the Xian Beilin will strengthen the Group's leading position in the ENT sector. Its academic promotion, marketing team and network may further strengthen the coverage of the sales network of the Group in the ENT sector and also enhance the efficiency. Such acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

The Group has also devoted efforts and earned results in the control of liquidity and finance cost. The Group executed different ways such as issuance of shares, corporate bonds and increase the fund liquidity in order to reduce the risk of corporate current liability. As at 31 December 2016, the net current liabilities of the Group decreased to approximately HK$676.23 million.

On 13 July 2016, the Company entered into a subscription agreement with Outwit and East Ocean Capital (Hong Kong) Limited (the "**East Ocean Capital**") for the subscription of 83,056,478 and 24,916,943 shares of the Company (the "**Shares**") respectively (the "**Connected Subscription**"). The subscription price was HK$1.40 per Share. Immediately preceding the Connected Subscription, Outwit and its associates are interested in 1,228,775,094 Shares, and Outwit is a controlling shareholder of the Company. East Ocean Capital is an indirect non-wholly owned subsidiary of China Grand, which is controlled and ultimately and beneficially owned by Mr. Hu Kaijun, a controlling shareholder of the Company. The Connected Subscription has been approved by independent shareholders and was completed in September 2016.

On 14 July 2016, the Company entered into a placing agreement with 2 placing agents namely ICBC International Securities Limited and Sinolink Securities (Hong Kong) Company Limited for the placing of 122,428,000 Shares to not less than six independent investors (the "**Placing**"). The placing price was HK$1.40 per Share. On the same day, the Company entered into a subscription agreement with GL Healthcare Investment L. P. (the "**GL**") for the issuance and allotment of 44,570,000 new Shares (the "**GL Subscription**"). The subscription price was HK$1.40 per Share. The Placing was completed in July 2016 and the GL Subscription was completed in August 2016.

The net proceeds from the Connected Subscription, the Placing and the GL Subscription were approximately HK$381.10 million in which approximately HK$257.40 million were used for the repayment of bank loan, and the remaining approximately HK$123.70 million were used as the general working capital of the Group.

Furthermore, GrandPharma (China) Co., Ltd. (the "**GrandPharma (China)**"), an indirect non-wholly owned subsidiary of the Company, completed the issuance of RMB100.00 million corporate bonds in December 2016, and has already been listed in the Shenzhen Stock Exchange. The interest rate per annum is 5.49%, and the proceeds were used for the repayment of bank loans.

The Directors believed that the issuance of new Shares and corporate bonds enabled the Group to raise additional fund to improve its financial position and introduced important strategic shareholders, which may provide solid foundation and guarantee for the future growth of the Group.

With reference to the disclosure in the 2016 interim report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "**Tianjin Jingming**"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Group. In January 2017, the court has concluded 11 cases, and Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB3.95 million in according to the court order. As at the date of this announcement, the other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "**Actual Profit**") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "**Performance Guarantee**"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in accordance the formula set out in the announcement of the Company dated 22 December 2014. As at the date of this announcement, the Group is in a litigation against those vendors in related to the said Performance Guarantee. The Company will inform the shareholders of the Company the result of the said litigation as and when appropriate.

Revenue

For the year ended 31 December 2016, the Group recorded a revenue amount of approximately HK$3,696.16 million, and was increased by 13.9% as compared with the same period of 2015. However, if taken out the depreciation effect of RMB, the revenue of the Group in 2016 was increased by approximately 20.2% as compared with the same period of 2015. The increment of the revenue is mainly due to the Group actively fine-tuning the product matrix, and also the completion of the acquisition of Xian Beilin in July 2016 has also commenced to contribute to the Group. The Group has continuously committed to the development of ENT and cerebro-cardiovascular emergency products with more advanced technology, broaden market potential and higher profit margin. Following the continuous growth of the proportion of these high profit margin products, the average gross profit margin of the Group during the current review period was approximately 46.9%, which increased by approximately 5.3% from 41.6% in compared with the same period of 2015.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical preparations and medical devices are the major sources of profit of the Group, the core products include cerebro-cardiovascular medicines and medical devices, ENT medicines and medical devices, etc. For the year ended 31 December 2016, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB1,701.79 million with the increment of approximately 46.3% as compared with approximately RMB1,163.59 million in the same period of 2015.

- *Cerebro-cardiovascular medicines and medical devices*

  The Group's cerebro-cardiovascular emergency medicines mainly cover the field of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the pioneer position of the PRC market. For the period ended 31 December 2016, the turnover of the Group's cerebro-cardiovascular medicines was approximately RMB514.80 million, increased by approximately 23.3% as compared with the same period of last year. Among this sector, the core products such as Xin Wei Ning, Nuo Fu Kang, Rui An Ji and Li Shu An contributed turnover of approximately RMB460.77 million in aggregate, which was increased by approximately 28.7% as compared with the same period of 2015. The business of the Group's associate company Cardionovum GmbH (the "**Cardionovum**") was continuously improved, its turnover recorded an increment rate of approximately 182% in 2016. The Group is currently introducing 3 types of German made products which relating to the coronary artery, extravascular and vascular dialysis from Cardionovum, these products with the market potential and their clinical trial and the production registration still in a smooth progress. The quality and technology of these products are in the world-wide leading position, it is expected the commercial launch of these products will bring in contributions to the Group's cerebro-cardiovascular medical devices sector.

- *ENT medicines and devices*

  The Group devotes to build the most comprehensive supply chain of ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, devices, consumables, healthcare products, etc., and providing an all-round means of treatment and care to doctors and patients. During the current financial year, the turnover of ENT medicines and devices recorded approximately RMB928.38 million with a growth of approximately 116% as compared with the same period of last year. This was benefit from the substantial growth of the two major sub-sectors of the ENT field, in which:

  - Ophthalmic: during 2016, the revenue from the ophthalmic products was approximately RMB433.72 million, with an increment of approximately 56.9% as compared to the approximately RMB276.37 million in 2015. The core ophthalmic brands of the Group Rui Zhu, Jie Qi and Bai Nei Ting have continuously maintained constant growth while the newly joined Xian Beilin has also commenced to provide certain contributions. The product formulations of the ophthalmic products of the Group covered all aspects, including both Chinese and western medicines and also have both prescription drugs and non-prescription drugs. There are certain number of high quality products which are the Group's exclusive products or being protected by the Chinese medicine patents. The Group has become one of the largest medical products suppliers in the ophthalmic treatment sector in the PRC.

  - Respiratory and ENT: during 2016, the revenue of the respiratory and ENT products of the Group was approximately RMB494.66 million, with an increment of approximately 325% as compared to the approximately RMB152.29 million in 2015. The core brands of the Group Nuo Tong and Ao Ke An maintained rapid growth. Qie Nuo of Beijing Jiu He Pharmaceutical Limited (which the Group acquired in 2015) and Jin Sang series of Xian Beilin (which was newly acquired in 2016) have also played an important role in the growth of revenue in this sector. Qie Nuo and Jin Sang series have been listed in the latest 2017 edition of the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement, which may secure the future growth of the Group.

Bio-technology Products and Nutrition Products

In December 2016, the Group completed the restructure of certain subsidiaries and integrated the business of the bio-technology products and nutrition products which benefiting the resources allocation and centralized the management. The core products of the bio-technology products and nutrition products include Taurine, amino acid products, etc. As the result of the continuous improvement of technology and technique, and also the increment of export business, the revenue of the bio-technology products and nutrition products was approximately RMB735.59 million, increased by approximately 8.5% as compared with the same period of 2015.

The bio-technology products and nutrition products sector has a broad prospects, especially the Group devoted in research and development in technique for years, the Group's products already equip with international standard and will bring in fruitful return to the Group. Furthermore, given the development prospect and business opportunity of the said bio-technology, the Group is actively seeking for any cooperation opportunities with multi-national companies and also looking for any potential development possibilities in different capital market. Management believes that the bio-technology products and nutrition products sector will be another important growth engine in the future.

Specialized Pharmaceutical Raw Materials and Other Products

Specialized pharmaceutical raw materials and other products are the comparatively stable sector among the three core product sectors of the Group. During the recent years, the PRC government has become more focus on and tighten the supervision in the environmental protection and the production approval of high-end pharmaceutical raw materials. The Group has always been focusing on such product quality, enhancement in the production technique and environmental protection, and also continuously improving the product technology. Such products have well-known brand images and also large market shares. During the year of 2016, the related revenue was approximately RMB724.93 million, while it was approximately RMB788.53 million in 2015.

Among this product sector, the revenue of the specialized pharmaceutical raw materials (excluding steroid products) was approximately RMB343.53 million during the year 2016, with an increment of approximately 22.1% as compared with the same period of 2015. This is mainly due to the Group's pharmaceutical raw materials were not only used as the raw materials of the Group's pharmaceutical preparations, but also being sold to the market. The revenue of the steroid products was approximately RMB204.78 million with a reduction of approximately 15.4% as compared with the same period of last year, since the product matrix restructuring still in progress. Management believes that after the restructuring of the product matrix and also putting more effort in the marketing activities, the production and sales of these products may have certain improvement in the future.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the year were approximately HK$902.72 million and HK$421.49 million respectively, while they were approximately HK$641.66 million and HK$431.58 million respectively in the same period of last year. The increment of the distribution costs was mainly due to the newly acquired companies have put more efforts in the marketing promotion and thus resulted in the increment of costs. Currently, the Group has a sales team with more than 2,000 staffs, our products cover around 6,000 hospitals and around 30,000 pharmacies. It is expected the coverage will continue to extend in order to distribute the products of the Group among the country.

Finance Costs

For the year ended 31 December 2016, the finance costs of the Group were approximately HK$181.68 million while they were approximately HK$157.16 million during the same period of 2015. The increment was mainly due to the change of the bank loan combinations and also the existing finance costs of the newly acquired company are relatively higher.

Outlook and Future Prospects

According to the statistics from IMS Health Incorporated (the "**IMS**"), the sales of global pharmaceutical market (excluding medical devices) amounted to approximately US$1,110 billion in 2016, representing a year-on-year increase of 3.85%. According to the latest data from WIND Consulting (WIND), in 2016, the revenue from main business activities amounted to approximately RMB2,806.2 billion in the pharmaceutical manufacturing industry in the PRC, representing a growth of 9.7% over the same period last year, and the total profit was approximately RMB300.2 billion, representing a year-on-year increase of 13.9%. Emerging economies, represented by the PRC, have become the key drivers to the growth of the global pharmaceutical markets; the market share of which has increased from 12% to 30% of the global pharmaceutical market for the ten years from 2005 to 2016.

In the past year, the health care reform has been deepening and a number of significant events have happened in quick succession in the pharmaceutical market in the PRC. Firstly, the number of participants covered by medical insurance in the PRC exceeded 1.3 billion, with the rate of participating in insurance remained stable at 95% or above. The government subsidy standards for the medical insurance for urban and rural residents increased from RMB80 in 2008 before the health care reform to RMB420 in 2016; Secondly, policies and initiatives in relation to health care reform have been continuously introduced, including, among others, the reform on doctors' salary system, "two-invoice system" in the pharmaceutical distribution sector, Direct-to-Patient (DTP) sales reform of prescription drugs, reform on health insurance payment standards, hospitals' clinical pathway management and consistency assessment for generic drugs; in particular, in February 2017, the Ministry of Human Resources and Social Security of the PRC formally issued "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)", which represents a new list containing 2,535 types of drugs after eight years, and will be the critical competition benchmark for the pharmaceutical market in the PRC; Thirdly, according to E Medicine Manager Magazine (《E藥經理人》雜誌), there were 428 mergers and acquisitions in the pharmaceutical industry in the PRC from October 2015 to September 2016, of which 371 transactions disclosed had a total value of RMB162 billion.

The Group values and concerns the changes in the policies and operating practices in relation to the reform deepening of the pharmaceutical market in the PRC, and adheres to effectively implementing the product group strategy in the therapy segment through the combination of independent research and development, as well as investment and acquisitions. By which, a number of core products have been launched successively, such as Qie Nuo, Xin Wei Ning, Li Shu An, Nuo Fu Kang, He Xue Ming Mu and Jin Sang series products, etc., and the Group has also developed the high-end drug eluting balloon (高端藥塗球囊) series utilizing the world's leading technologies for the cardiovascular disease interventional therapy. At present, the Group has developed to be one of the leaders of ENT and cardiovascular emergency medicine products in the pharmaceutical market in the PRC.

After years of unremitting efforts, the Group has invested more resources in product structure optimization and technology upgrade of product quality, resulting in the increasing gross profit margin from our product, and the proportion of the revenue from the core business segments of the Group, i.e. pharmaceutical products and medical devices segments, accounted for more than a half of the total revenue for the first time, reaching 53.8%. The Group has been maintaining a rapid growth in business performance for eight consecutive years, which can demonstrate that the management of the Group has the ability and confidence to further improve the operational efficiency and profitability with better synergies among its subsidiaries in the next five years. By enhancing the research and development of and investment in innovative products, and actively exploring and capturing favorable opportunities arising in the capital market, we will continue to maintain the rapid growth of the Company to achieve the strategic objective of the Group to become one of top 20 in the pharmaceutical market in the PRC, thus generating greater returns for the Company and its shareholders.

Financial Resources and Liquidity

As at 31 December 2016, the Group had current assets of HK$2,481.09 million (31 December 2015: HK$2,405.89 million) and current liabilities of HK$3,157.32 million (31 December 2015: HK$3,248.76 million). The current ratio was 0.79 at 31 December 2016 as compared with 0.74 at 31 December 2015.

The Group’s cash and bank balances as at 31 December 2016 amounted to HK$484.42 million (31 December 2015: HK$653.99 million), of which approximately 6.2% were denominated in Hong Kong, United States Dollars and Euro and 93.8% in Renminbi.

As at 31 December 2016, the Group had outstanding bank loans of approximately HK$2,357.53 million (31 December 2015: HK$2,724.62 million). All bank loans were denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 3.99% to 9.60% (31 December 2015: 0.83% to 7.45%) per annum, in which approximately HK$470.65 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of HK$331.12 million (31 December 2015: HK$364.73 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders’ equity, was 135.8% at 31 December 2016 as compared with 234.9% at 31 December 2015.

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 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 2016, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Material Acquisitions and Disposals

In June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in Xian Beilin at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is a national hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has focused on the ENT medicine for many years. The said acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

Significant Investment

There was no other significant investment during the year.

Contingent Liabilities

As at 31 December 2016, the Directors were not aware of any material contingent liabilities.

Events after the Reporting Period

Save as disclosed above, no subsequent events occurred after 31 December 2016, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Issue of new shares and use of proceeds

On 13 July 2016, the Company entered into a subscription agreement with Outwit and East Ocean Capital for the subscription of 83,056,478 and 24,916,943 Shares respectively. The subscription price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share at the date of entering the agreement was HK$1.42 each. The Connected Subscription was approved by independent shareholders and completed in September 2016.

On 14 July 2016, the Company entered into a placing agreement with 2 placing agents namely ICBC International Securities Limited and Sinolink Securities (Hong Kong) Company Limited for the placing of 122,428,000 Shares to not less than six independent investors. The placing price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share at the date of entering the agreement was HK$1.45 each. The Placing was completed in July 2016.

On 14 July 2016, the Company entered into a subscription agreement with GL for the issuance and allotment of 44,570,000 new Shares. The subscription price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share on the date of entering the agreement was HK$1.45 each. The GL Subscription was completed in August 2016.

The Directors believe the Connected Subscription, the Placing and the GL Subscription enabled the Company to raise additional fund to improve its financial position, broaden its capital base and shareholder base, and support the Group’s future growth. The net proceeds from the Connected Subscription, the Placing and the GL Subscription were approximately HK$381.10 million in which approximately HK$257.40 million were used for the repayment of bank loan, and the remaining approximately HK$123.70 million were used as the general working capital of the Group.

Purchase, Sale or Redemption of Shares

Save as disclosed above, during the year ended 31 December 2016, 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 2016, the Group employed about 7,369 staff and workers in Hong Kong and the PRC (31 December 2015: about 6,117). 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 a director of some pharmaceutical companies in the PRC (including China Grand) and Dr. Niu Zhanqi, an executive director, who is an executive president of Pharmaceutical Management Headquarters of China Grand, 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.

Directors' Interests in Transaction, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

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 2016.

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 (the "**CG Code**") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2016.

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 2016 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, 26 May 2017 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, 24 May 2017 to Friday, 26 May 2017 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 26 May 2017. 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, 23 May 2017.

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

Hong Kong, 27 March 2017

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. Niu Zhanqi and three independent non-executive directors, namely Ms. So Tosi Wan, Winnie, Mr. Lo Kai Lawrence and Dr. Pei Geng.

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).

* *For identification purpose only.*