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# 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)**

## 2010 INTERIM RESULTS ANNOUNCEMENT

### INTERIM RESULTS

The board of directors (the "Board") of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2010 of the Company and its subsidiaries (collectively the "Group"), together with comparative figures for the previous period.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2010*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| **Turnover** | *3* | **409,085** | 277,814 |
| Cost of sales | | **(244,924)** | (149,309) |
| **Gross profit** | | **164,161** | 128,505 |
| Other income | | **6,866** | 2,146 |
| Fair value gain on issuance of promissory note | | **—** | 17,244 |
| Discount on acquisition of subsidiaries | | **17,746** | — |
| Distribution expenses | | **(77,815)** | (52,410) |
| Administrative expenses | | **(49,937)** | (48,324) |
| Finance costs | | **(21,552)** | (16,430) |
| Share of results of associates | | **2,637** | 2,340 |
| **Profit before tax** | *5* | **42,106** | 33,071 |
| Taxation | *6* | **(6,380)** | (3,361) |
| **Profit for the period** | | **35,726** | 29,710 |

* *For identification purpose only*

| | Notes | Six months ended 30 June 2010 HK$'000 (Unaudited) | 2009 HK$'000 (Unaudited) |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Exchange difference arising on translation | | **3,978** | 5 |
| **Other comprehensive income for the period** | | **3,978** | 5 |
| **Total comprehensive income for the period** | | **39,704** | 29,715 |
| **Profit for the period attributable to:** | | | |
| — Owners of the Company | | **18,974** | 22,190 |
| — Non-controlling interests | | **16,752** | 7,520 |
| | | **35,726** | 29,710 |
| **Total comprehensive income for the period attributable to:** | | | |
| — Owners of the Company | | **21,899** | 22,193 |
| — Non-controlling interests | | **17,805** | 7,522 |
| | | **39,704** | 29,715 |
| **Dividend** | *7* | **—** | — |
| **Earnings per share** | *8* | | |
| — Basic (HK cents) | | **1.41 cents** | 2.07 cents |
| — Diluted (HK cents) | | **N/A** | 1.94 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2010*

| | Notes | **30 June 2010** *HK$'000* **(Unaudited)** | 31 December 2009 *HK$'000* (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **388,268** | 137,977 |
| Interests in leasehold land held for own use under operating leases | | **237,277** | 196,499 |
| Interests in associates | | **4,451** | 44,882 |
| Deferred tax assets | | **2,138** | — |
| Available-for-sale financial assets | | **21,030** | 20,791 |
| Intangible assets | | **1,710** | 1,252 |
| | | **654,874** | 401,401 |
| **Current assets** | | | |
| Inventories | | **136,500** | 54,968 |
| Trade and other receivables | *9* | **287,324** | 85,696 |
| Interests in leasehold land held for own use under operating leases — current portion | | **6,088** | 5,006 |
| Pledged bank deposits | | **195,379** | 1,403 |
| Bank balances and cash | | **85,752** | 60,227 |
| | | **711,043** | 207,300 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **339,260** | 137,904 |
| Bank loans — secured | | **277,011** | 69,468 |
| Promissory note — current portion | | **140,038** | — |
| Convertible bond | | — | 48,997 |
| Tax payable | | **29,259** | 8,081 |
| | | **785,568** | 264,450 |
| **Net current liabilities** | | **(74,525)** | (57,150) |
| **Total assets less current liabilities** | | **580,349** | 344,251 |
| **Non-current liabilities** | | | |
| Bank loans — secured | | **62,069** | 22,727 |
| Deferred tax liabilities | | **61,504** | 43,241 |
| Amount due to holding company | | **29,729** | 22,229 |
| Promissory note — non-current portion | | — | 126,831 |
| | | **153,302** | 215,028 |
| | | **427,047** | 129,223 |
| **Capital and reserves** | | | |
| Share capital | | **14,406** | 10,739 |
| Reserves | | **184,291** | 22,213 |
| Equity attributable to owners of the Company | | **198,697** | 32,952 |
| **Non-controlling interests** | | **228,350** | 96,271 |
| | | **427,047** | 129,223 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements have been prepared on a going concern basis notwithstanding the Group has net current liabilities of approximately HK$74,525,000 as at 30 June 2010.

In the opinion of directors of the Company, the Group should be able to maintain itself as a going concern in the coming year, since the holder of the promissory note, Long Smart Investments Limited, agreed not to demand for payment, when the liability falls due in February 2011 until the Group is financially capable to do so. Long Smart Investments Limited is a wholly owned subsidiary of Outwit Investments Limited ("Outwit"), the parent and ultimate holding company of the Company.

Accordingly, the directors consider that the Group will have sufficient working capital to meet its financial obligations when they fall due for the next twelve months from 30 June 2010 and the directors are satisfied that it is appropriate to prepare these condensed consolidated financial statements on a going concern basis. The condensed consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

**2. Significant accounting policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) — Interpretation ("INT") 17 | Distributions of Non-cash Assets to Owners |

Except as described below, the application of these new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

***HKFRS 3 (Revised) Business Combinations***

HKFRS 3 (Revised) *Business Combinations* has been applied prospectively from 1 January 2010. Its application has affected the accounting for the acquisition of additional interests in Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo"), Hubei Fuchi Chemical and Pharmaceutical Company Limited ("Hubei Fuchi") and Hubei Ruizhu Pharmaceutical Company Limited ("Hubei Ruizhu") in the current period.

The impact of adoption of HKFRS 3 (Revised) has been:

- In business combination achieved in stage, an equity interest previously held in the acquiree which qualified as an associate under HKAS 28 *Investments in Associates* is similarly treated as if it were disposed of and reacquired at fair value on the acquisition date. Accordingly, it is remeasured to its acquisition-date fair value, and any resulting gain or loss compared to its carrying amount under HKAS 28 is recognised in profit or loss.

  In respect of the obtaining of control during the period of the Group's interest in Wuhan Grand Hoyo, the impact of the change in policy has been that the difference of approximately HK$302,261 between the carrying amount of the interest in associates under HKAS 28 and the fair value of the previously-held interests has been recognised in profit or loss. Had the previous accounting policy been applied, this amount would have been recognised direct in equity. Therefore, the change in accounting policy has resulted in an increase in the profit for the period of approximately HK$302,261.

- It requires acquisition-related costs to be accounted for separately from the business combination, as a result, the Group has recognised approximately HK$1,200,000 of such costs as an expense in profit or loss in relation to the acquisition of Hubei Fuchi and Hubei Ruizhu during the current interim period, whereas previously they would have been accounted for as part of the cost of the acquisition.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

***HKAS 27 (Revised) Consolidated and Separate Financial Statements***

The application of HKAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increase or decrease in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increase in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

The revised standards are also expected to affect the accounting for change in ownership interests in future accounting periods, but the impact will only be determined once the details of future transactions are known.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC) — INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) — INT 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**3. Turnover**

Turnover represents the net amounts received and receivable for goods sold.

**4. Segment information**

Segment information has been identified on the basis on internal reports about components of the Group that are regularly reviewed by the chief operation decision maker for the purpose of allocating resources to segments and assessing their performance.

The Group is only engaged in manufacture and sales of pharmaceutical and healthcare products. The chief executive officer, 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.

## 5. Profit before tax

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit before tax is stated after charging (crediting): | | |
| Staff costs (excluding directors' emoluments) comprises: | | |
| — Wages and salaries | **46,904** | 32,366 |
| — Retirement benefits schemes contributions | **4,737** | 3,848 |
| | **51,641** | 36,214 |
| Share of tax of associates | **325** | 413 |
| Cost of inventories recognised as expense | **244,924** | 149,309 |
| Depreciation of property, plant and equipment | **7,980** | 4,993 |
| Amortisation of interests in leasehold land held for own use under operating leases | **3,365** | 2,640 |
| Operating leases rental in respect of land and building | **639** | 108 |
| Gain on disposal of property, plant and equipment | **—** | (14) |
| Research and development cost | **9,259** | 6,471 |
| Written off of property, plant and equipment | **17** | — |

## 6. Taxation

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current tax: | | |
| People's Republic of China ("PRC") | **6,704** | 4,079 |
| Deferred tax: | | |
| Hong Kong | **(165)** | (159) |
| PRC | **(159)** | (559) |
| | **6,380** | 3,361 |

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2010 and 2009 as the Company and its subsidiaries which operate in Hong Kong have no assessable profits for both periods.

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

Wuhan Grand Pharmaceutical Group Company Limited, a subsidiary of the Group was exempted from PRC enterprise income tax for the two years starting from 2005 and is entitled to a 50% reduction for the following three years in accordance with Articles 8 of Income Tax Law of PRC for enterprises with Foreign Investment and Foreign Enterprises. All corresponding PRC enterprise income tax relating to the taxable profit of Wuhan Grand Pharmaceutical Group Company Limited during the period ended 30 June 2009, has been recognized in the consolidated statement of comprehensive income at the tax rate of 12.5%.

All other PRC subsidiaries operate in the PRC during the period are subject to the tax rate of 25%.

## 7. Interim dividend

No dividend were paid, declared or proposed during the reported period (2009: Nil). The Board does not recommend the payment of an interim dividend.

## 8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity holders of the Company of approximately HK$18,974,000 (2009: HK$22,190,000) and on 1,341,337,315 (2009: 1,073,934,000) ordinary shares, being the weighted average ordinary shares in issue during the period.

No dilutive earnings per share have been presented for the six months ended 30 June 2010, as there was no dilutive potential share for the period. The calculation of diluted profit per share for the six months ended 30 June 2009 is based on the earnings for the purpose of diluted earnings per share of approximately HK$24,040,000 and on 1,240,660,667 ordinary shares (taking into consideration of the 166,666,667 shares issuable upon the full conversion of the HK$50,000,000 convertible bond).

## 9. Trade and other receivables

| | **30 June 2010** | 31 December 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **160,849** | 30,306 |
| Bills receivables | **27,249** | 21,821 |
| Discounted bills receivables | **805** | 17,195 |
| Other receivables, deposits and prepayments | **106,505** | 21,855 |
| *Less:* impairment loss on other receivables | **(8,084)** | (5,481) |
| | **287,324** | 85,696 |

The aging analysis of trade receivables presented based on the invoice date at the end of the reporting period is set out below:

| | **30 June 2010** *HK$'000* **(Unaudited)** | 31 December 2009 *HK$'000* (Audited) |
|---|---|---|
| Within 90 days | **135,017** | 29,252 |
| 91 — 180 days | **15,358** | 2,999 |
| 181 — 365 days | **1,202** | 39 |
| Over 365 days | **62,655** | 27,777 |
| | **214,232** | 60,067 |
| *Less:* accumulated impairment | **(53,383)** | (29,761) |
| | **160,849** | 30,306 |

The Group allows a credit period of 30 to 90 days to its trade customers. Bills receivable were all with maturity within 180 days from the reporting date.

## 10. Trade and other payables

| | **30 June 2010** *HK$'000* **(Unaudited)** | 31 December 2009 *HK$'000* (Audited) |
|---|---|---|
| Trade payables | **78,779** | 42,316 |
| Bills payables | **27,880** | 21,035 |
| Accrued charges and other creditors | **232,601** | 74,553 |
| | **339,260** | 137,904 |

The aging analysis of trade payables presented based on the invoice date at the end of the reporting period is set out below:

| | **30 June 2010** *HK$'000* **(Unaudited)** | 31 December 2009 *HK$'000* (Audited) |
|---|---|---|
| Within 90 days | **45,606** | 24,624 |
| Over 90 days | **33,173** | 17,692 |
| | **78,779** | 42,316 |

## 11. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

For the six months ended 30 June 2010, the following events have taken place:

(1) On 15 January 2010, Outwit Investments Limited ("Outwit") entered into a placing agreement and agreed to place 200,000,000 existing shares of the Company at HK$0.45 per share to independent third parties ("Placing"). Outwit also entered into a subscription agreement with the Company and agreed to subscribe for 200,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at the subscription price equal to the proceeds from successfully placed shares, less any commission, costs, expenses and charges paid by Outwit pursuant to and in connection with the Placing ("Subscription"). Details of the Placing and the Subscription are set out in the circular of the Company dated 28 January 2010. An ordinary resolution approving the Placing and the Subscription was passed at the special general meeting of the Company held on 12 February 2010. The Subscription was completed on 18 February 2010, and 200,000,000 new ordinary shares of the Company were issued and allotted to Outwit.

(2) On 18 February 2010, Outwit fully exercised its conversion right in the convertible bond and converted the convertible bond at its par value of HK$50,000,000 into 166,666,667 new ordinary shares of HK$0.01 each in the share capital of the Company at the conversion price of HK$0.3 per share.

(3) On 24 February 2010, Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo") amended its Articles of Association such that Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") shall have the right to nominate 4 out of 7 directors of Wuhan Grand Hoyo. On 24 February 2010, an additional director was nominated by Wuhan Grand and appointed to the board of Wuhan Grand Hoyo. As a result, Wuhan Grand has controlled the majority of the directors of Wuhan Grand Hoyo. Wuhan Grand Hoyo became a subsidiary of Wuhan Grand and its accounts have been consolidated into the accounts of the Group starting from March 2010.

(4) Pursuant to the resolution passed in the general meeting held on 26 February 2010, the shareholders of Wuhan Grand had approved the issuance of new equity interests to its existing shareholders on a pro rata basis. The Group will subscribe in aggregate 75.95% of new equity interests in Wuhan Grand at a consideration of approximately RMB75,953,000. Upon completion, the Group will held 72.82% equity interests of the enlarged registered capital in Wuhan Grand. On 16 March 2010, the shareholders of Wuhan Grand varied the terms of the issuance of new equity interests to its existing shareholders such that the aggregate par value of all new equity interests offered for subscription be increased from RMB50,000,000 to RMB100,000,000, all other terms of the subscription remain unchanged. Upon subscription of its final entitlement to the new equity interests, the Group's equity interests in Wuhan Grand increased 2.69% from 70.98% to 73.67% of the enlarged registered capital in Wuhan Grand.

(5) On 2 March 2010, Wuhan Grand entered into an agreement with 33 shareholders of 湖北富馳化工醫藥股份有限公司 (Hubei Fuchi Chemical and Pharmaceutical Company Limited) ("Hubei Fuchi") ("Fuchi Vendors"). Pursuant to the agreement, Wuhan Grand agreed to purchase 75.47% equity interests in Hubei Fuchi from the Fuchi Vendors at a consideration of approximately RMB117 million.

(6) On 2 March 2010, Wuhan Grand entered into another agreement with 珠海中珠股份有限公司 (Zhuhai Zhongzhu Joint Stock Company Limited) ("Zhuhai Zhongzhu") and 湖北園林青食品有限公司 (Hubei Yuanlinqing Food Company Limited) ("Hubei Yuanlinqing"). Pursuant to the agreement, Wuhan Grand agreed to purchase the entire equity interests in 湖北瑞珠制藥有限公司 (Hubei Ruizhu Pharmaceutical Company Limited) ("Hubei Ruizhu") from Zhuhai Zhongzhu and Hubei Yuanlinqing at a consideration of approximately RMB110 million.

(7) On 30 April 2010, the Company entered into a framework agreement with Mr Ye Bo, pursuant to which, the Company agreed to purchase 67% equity interests in 浙江仙居仙樂藥業有限公司(Zhejiang Xianju Xianle Pharmaceutical Company Limited) ("Zhejiang Xianle") at a consideration of approximately RMB93,800,000. On 30 June 2010, a transfer agreement has been entered into by both parties and we are in the process of applying for change of registration of shareholders of Zhejiang Xianle with the industrial and commercial authorities, the acquisition is expected to be completed in October 2010.

(8) On 30 April 2010, the Company entered into three framework agreements with Magnate Company Limited, Golden Joint Global Limited and Phnia Company Limited respectively (together the "Lihua Vendors"), pursuant to which, the Company agreed to purchase in aggregate 55% equity interests in 河南利華製藥有限公司 (Henan Lihua Pharmaceutical Company Limited) ("Henan Lihua") at a consideration of approximately RMB165,000,000. As of today, the Lihua Vendors have not executed the transfer agreements pursuant to the terms of the framework agreements. The acquisition of Henan Lihua has not been completed and the Company is seeking legal advice in respect of its rights and obligations under the framework agreements.

For the six months ended 30 June 2010, the Group recorded a turnover of HK$409,085,000 (2009: HK$277,814,000) which represents an increase of 47% as compared with the corresponding period last year. Gross profit of the Group for the period under review was HK$164,161,000 (2009: HK$128,505,000). The gross margin achieved during the current period was about 40% (2009: 46%).

The Group reported a consolidated profit attributable to owners of the Company of HK$18,974,000 as compared with HK$22,190,000 for the corresponding period last year. The decrease was mainly attributable to the decrease in other non-operating incomes during the period under review. However, operating results, as set out in the following table, increased from HK$16,745,000 to HK$20,453,000, an increase of 22%, during the period under review.

During the six months period ended 30 June 2010, in addition to the acquisition of pharmaceutical companies, the Group also increased its investment in research and development. Research and development expenditures increased to HK$9,259,000 from HK$6,471,000 during the period under review.

**Operating results**

For the six months ended 30 June 2010, the Group's operating results will be as follow after excluding the discount on acquisition of subsidiaries and the coupon and imputed interest expenses related to the convertible bond and the promissory note.

| *(in Hong Kong dollar thousands)* | **2010** | 2009 |
|---|---|---|
| Profit attributable to owners of the Company | **18,974** | 22,190 |
| *Less:* Discount on acquisition of subsidiaries, net of non-controlling interests | **(13,073)** | — |
| *Less:* Fair value gain on issuance of promissory note | — | (17,244) |
| *Add:* Coupon interest on the convertible bond and the promissory note | **4,092** | 3,750 |
| *Add:* Imputed interest on the convertible bond and the promissory note | **10,460** | 8,049 |
| | **20,453** | 16,745 |

**Wuhan Grand**

Wuhan Grand is mainly engaged in the development, production and sales of pharmaceutical preparations and raw material pharmaceuticals. For the six months ended 30 June 2010, overall turnover amounted to about RMB289,023,000 (2009: RMB244,477,000) which represented an increase of 18% when compared with that of the corresponding period last year. Turnover of pharmaceutical preparations and raw material pharmaceuticals recorded an increase of 19% and 17% respectively when compared with that of the previous year.

Overall gross margin for the six months ended 30 June 2010 was 46% (2009: 46%). Gross margin for pharmaceutical preparations was 55% (2009: 54%) while those for raw material pharmaceuticals was 35% (2009: 37%).

Net profit after tax was about RMB27,232,000 (2009: RMB21,739,000) which represented an increase of 25% when compared with that of the corresponding period last year.

Turnover, gross and net profit of Wuhan Grand were summarized as follows:

| *(in RMB millions)* | **2010** | 2009 |
|---|---|---|
| Pharmaceuticals preparations | **156** | 131 |
| Raw material pharmaceuticals | **133** | 114 |
| **Turnover** | **289** | 245 |
| Pharmaceuticals preparations | **85** | 71 |
| Raw material pharmaceuticals | **47** | 42 |
| **Gross profit** | **132** | 113 |
| **Net profit** | **27** | 22 |

For the six months ended 30 June 2010, pharmaceutical preparations account for approximately 54% of the annual sales and approximately 65% of gross profit of Wuhan Grand. These products are mainly focus on cardiovascular, ophthalmic and antibiotic areas. Sales of our core pharmaceutical preparations for the past two periods were analysed as follows:

| *(in RMB millions)* | **2010** | 2009 |
|---|---|---|
| Tirofiban | **24** | 20 |
| Eye drops | **18** | 16 |
| Enoxacin gluconate | **23** | 19 |
| Others | **91** | 76 |
| Turnover — pharmaceuticals preparations | **156** | 131 |

Wuhan Grand is one of the largest manufacturers of Analgin and Metronidazole in the PRC. Two other products, namely Adrenaline bitartrate and Noradrenaline bitartrate, were certified by the Food and Drug Administration of USA and are exported to the USA market. For the six months ended 30 June 2010, these raw material pharmaceuticals account for about 46% of the annual sales and approximately 35% of gross profit of Wuhan Grand. Sales of these core products for the past two periods were analysed as follows:

| *(in RMB millions)* | **2010** | 2009 |
|---|---|---|
| Analgin | **83** | 77 |
| Metronidazole | **21** | 16 |
| Adrenaline and Noradrenaline bitartrate | **13** | 12 |
| Others | **16** | 9 |
| **Turnover — raw material pharmaceuticals** | **133** | 114 |

**Wuhan Grand Hoyo**

Wuhan Grand Hoyo is mainly engaged in the manufacture and sales of amino acid. For the six months ended 30 June 2010, turnover amounted to approximately RMB90,417,000 (2009: RMB67,059,000), which represented an increase of 35% when compared with that of the corresponding period last year.

Gross margin for the six months ended 30 June 2010 was 18% (2009: 15%). The increase in gross margin was mainly attributable to the increase in sales of higher margin products, such as acetyl cysteine and carboxymethyl-L-cysteine during the period.

Net profit after tax was about RMB7,344,000 (2009: RMB3,961,000) which represented an increase of 85% when compared with that of the corresponding period last year.

Turnover, gross and net profit of Wuhan Grand Hoyo for the past two periods were as follows:

| *(in RMB millions)* | **2010** | 2009 |
|---|---|---|
| L-cysteine HCI monohydrate | **26** | 17 |
| L-cysteine HCI anhydrous | **13** | 10 |
| Acetyl cysteine | **25** | 16 |
| Carboxymethyl-L-cysteine | **10** | 8 |
| Others | **16** | 16 |
| **Turnover** | **90** | 67 |
| **Gross profit** | **16** | 10 |
| **Net profit** | **7** | 4 |

**Hubei Fuchi**

Hubei Fuchi is principally engaged in the production of agrochemicals, fine chemicals and chemical medicines. Its main products include taurine, calcium superphosphate and dimethyl sulfate. Hubei Fuchi can produce annually 8,000 tons of taurine, 300,000 tons of calcium superphosphate and 30,000 tons of dimethyl sulfate, it is ranked third in China for the production of these main products.

The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the accounts of the Group starting from June 2010. For the month ended 30 June 2010, turnover and net profit after tax recorded by Hubei Fuchi amounted to HK$18,532,000 and HK$897,000 respectively. The Group recorded a discount on acquisition of approximately HK$15,773,000 on acquisition of Hubei Fuchi.

**Hubei Ruizhu**

Hubei Ruizhu is principally engaged in the production and sales of ophthalmic gel and eye drops. Hubei Ruizhu has the state-of-the-art production facilities and is one of the few manufacturers in China which has the technology to produce high-end ophthalmic medicines. Hubei Ruizhu has five advance production lines for producing ophthalmic gel and eye drops including three imported from Weiler of United States for the production of preservative free eye drops, one from Axomatic of Italy for the production of eye gel and one from Groninger of Germany for the production of one-off eye drops.

The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the accounts of the Group starting from May 2010. For the two months ended 30 June 2010, turnover and net profit after tax recorded by Hubei Ruizhu amounted to HK$3,169,000 and HK$279,000 respectively. The Group recorded a discount on acquisition of approximately HK$1,972,000 on acquisition of Hubei Ruizhu.

## PROSPECTS

On 2 March 2010, Wuhan Grand entered into two acquisition agreements to acquire 75.47% equity interest in Hubei Fuchi and 100% equity interest in Hubei Ruizhu.

Wuhan Grand has received a notice from Wuhan City Government requesting it to relocate its existing production facilities to other places within the next 3 years. Wuhan City Government will compensate Wuhan Grand for the relocation. Although the exact amount of compensation has not been finalised, it will be in the range between RMB700,000,000 to RMB1,000,000,000. As the expenses related to the relocation have not yet been known, any profit resulted from the relocation cannot be ascertained now. Wuhan Grand would like to take this opportunity to reorganise itself into three main operations, namely cardiovascular drug, ophthalmic medicine and raw material pharmaceuticals. As the relocation process will take place in around 3 years, Wuhan Grand will plan ahead and take all practical steps to minimise any disruption to its businesses.

As certain upstream raw materials of the Group's raw material pharmaceuticals are currently supplied by Hubei Fuchi, acquisition of Hubei Fuchi will allow the Group to relocate and upgrade its production facilities of raw material pharmaceuticals and also moving one step upward to control the production of these raw materials. Besides, one of Hubei Fuchi's main products, taurine, can supplement the pharmaceutical product line of the Group. Certain raw material pharmaceuticals currently produced by Wuhan Grand will be transferred to Hubei Fuchi which will become the main production centre for raw material pharmaceuticals.

With the acquisition of Hubei Ruizhu, Wuhan Grand will transfer most of the prescribed ophthalmic medicines currently produced by it to Hubei Ruizhu which will become the main production centre for high-end ophthalmic medicines. Most of the ophthalmic products of Hubei Ruizhu are high-end products and can supplement the current eye product line of the Group.

On 30 April 2010, the Company entered into several framework agreements to acquire 67% equity interest in Zhejiang Xianle and 55% equity interest in Henan Lihua.

Zhejiang Xianle is principally engaged in the manufacture and sales of steroid hormones active pharmaceutical ingredients and related intermediates. Zhejiang Xianle mainly produces two types of steroid hormones. The first type is glucocorticoid which includes betamethasone, dexamethasone, triamcinolone acetonide. The production and sale of betamethasone dominate the PRC market. Glucocorticoid is widely used in different types of diseases including inflammation, asthma, immune suppression and cardiovascular illness. The second type is cyproterone acetate, a sex hormone product, which is an antiandrogen and is mainly used in diseases such as prostate cancer, benign prostatic hyperplasia and hypersexuality.

The acquisition will enable the Group to become one of the few manufacturers of steroid hormones active pharmaceutical ingredients in the PRC. Steroid hormones form a significant sector of the pharmaceutical industry market. Currently there are about several hundreds different type of medicines made of steroid hormones which are widely used in different types of diseases including inflammation, immune suppression, asthma, growth and metabolism disorders, reproduction and fertility control, cardiovascular illness and cancer. Though the acquisition, the Group will not only acquire the production and sale of an important active pharmaceutical ingredient but also will lay a foundation for the Group to develop high end pharmaceutical preparations.

Henan Lihua is principally engaged in the manufacture and sales of glucocorticoid active pharmaceutical ingredients and related intermediates. As of today, the Lihua Vendors have not executed the transfer agreements pursuant to the terms of the framework agreements. The acquisition of Henan Lihua has not been completed and the Company is seeking legal advice in respect of its rights and obligations under the framework agreements.

The Group will fully capitalise on the opportunities arising from the PRC pharmaceutical and public health systems reform by expanding its product range and market share, enhancing its research and development capability and improving its sales network. It aims to become one of the largest pharmaceutical and healthcare manufacturers in the PRC through organic growth and acquisitions.

**Financial resources and liquidity**

As at 30 June 2010, the Group had current assets of HK$711,043,000 (31 December 2009: HK$207,300,000) and current liabilities of HK$785,568,000 (31 December 2009: HK$264,450,000). The current ratio was 0.91 at 30 June 2010 as compared with 0.78 at 31 December 2009.

The Group's cash and bank balances, including pledged bank deposits, as at 30 June 2010 amounted to HK$281,131,000 (31 December 2009: HK$61,630,000), of which 3% were denominated in Hong Kong and United States Dollars and 97% in Renminbi.

As at 30 June 2010, the Group had outstanding bank loans of HK$339,080,000 (31 December 2009: HK$92,195,000), all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 5.31% to 5.58% (for the year ended 31 December 2009: 5.31% to 5.58%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK$196,275,000 (31 December 2009: HK$205,667,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 171% at 30 June 2010 as compared with 280% at 31 December 2009.

As at 30 June 2010, the promissory note payable was approximately HK$140,038,000 (31 December 2009: HK$126,831,000). The coupon rate for the promissory note is 5% per annum. The principal and the accrued interest for the promissory note are repayable on 23 February 2011.

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

**Employees and remuneration policy**

As at 30 June 2010, the Group employed about 3,200 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

**Purchase, sale or redemption of shares**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2010.

**Model code for securities transactions**

The Company has adopted the Model Code 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 six months ended 30 June 2010.

**Code on corporate governance practices**

The Company has complied with the code provisions listed in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2010.

**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 comprises of all independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Lo Kai Lawrence and Mr Xin Dongsheng.

The Group's unaudited interim financial statements for the six months ended 30 June 2010 have 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 Mr Liu Chengwei with two independent non-executive directors namely, Ms So Tosi Wan, Winnie and Mr Lo Kai Lawrence as members.

By Order of the Board
**Liu Chengwei**
*Chairman*

Hong Kong, 30 August 2010

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