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 2010

The board of directors (the "Board") of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000* (Restated)
Turnover	*3*	**1,054,754**	545,435
Cost of sales		**(679,947)**	(295,341)
Gross profit		**374,807**	250,094
Other income	*4*	**140,775**	7,619
Distribution costs		**(207,939)**	(114,458)
Administrative expenses		**(121,967)**	(89,722)
Other operating expenses	*5*	**(330)**	(327)
Gain on bargain purchase		**21,631**	—
Fair value gain on issuance of promissory note		—	17,244
Share of results of associates		**3,149**	5,183
Finance costs	*6*	**(51,960)**	(26,847)
Profit before tax	*8*	**158,166**	48,786
Income tax expense	*7*	**(3,889)**	(6,873)
Profit for the year		**154,277**	41,913

* *For identification purpose only*

	Notes	**2010** **HK$'000**	2009 *HK$'000* (Restated)
Other comprehensive income			
Exchange difference on translation of foreign operations		**20,669**	—
Change in fair value of available-for-sale financial assets, after tax		**3,746**	4,866
Other comprehensive income for the year		**24,415**	4,866
Total comprehensive income for the year		**178,692**	46,779
Profit for the year attributable to:			
— Owners of the Company		**97,973**	28,344
— Non-controlling interests		**56,304**	13,569
		154,277	41,913
Total comprehensive income attributable to:			
— Owners of the Company		**118,435**	31,798
— Non-controlling interests		**60,257**	14,981
		178,692	46,779
Earnings per share	*10*		
Basic (HK cents)		**6.63**	2.49
Diluted (HK cents)		**6.62**	2.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**31 December 2010** *HK$'000*	31 December 2009 *HK$'000* (Restated)	1 January 2009 *HK$'000* (Restated)
Non-current assets				
Property, plant and equipment		**450,918**	137,977	132,237
Prepaid lease payments		**246,114**	196,499	201,467
Interests in associates		**5,076**	44,882	36,745
Available-for-sale financial assets		**35,055**	29,422	23,345
Deposits for acquisition of non-current assets		**42,444**	—	—
Goodwill		**54,944**	—	—
Intangible assets		**958**	1,252	1,579
Deferred tax assets		**2,221**	—	—
Prepayments		**20,415**	—	—
		858,145	410,032	395,373
Current assets				
Inventories		**216,168**	54,968	64,295
Trade and other receivables	*11*	**246,405**	85,696	64,821
Prepaid lease payments — current portion		**6,677**	5,006	5,044
Pledged bank deposits		**52,692**	1,403	4,574
Bank balances and cash		**306,999**	60,227	37,927
		828,941	207,300	176,661
Current liabilities				
Trade and other payables	*12*	**294,544**	137,904	142,240
Financial guarantee liabilities		**427**	—	—
Bank borrowings		**306,717**	69,468	77,273
Convertible bond		—	48,997	—
Tax payable		**34,819**	8,081	2,118
		636,507	264,450	221,631
Net current assets (liabilities)		**192,434**	(57,150)	(44,970)
Total assets less current liabilities		**1,050,579**	352,882	350,403

	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Non-current liabilities			
Bank borrowings	**40,000**	22,727	18,181
Deferred taxation liabilities	**67,621**	45,399	45,219
Amount due to holding company	**12,580**	22,229	19,951
Convertible bond	—	—	48,296
Promissory note/other payable	—	126,831	128,191
Deferred income	**83,529**	—	—
	203,730	217,186	259,838
Net assets	**846,849**	135,696	90,565
Capital and reserves			
Share capital	**19,208**	10,739	10,739
Reserves	**548,578**	26,808	(4,990)
Equity attributable to owners of the Company	**567,786**	37,547	5,749
Non-controlling interests	**279,063**	98,149	84,816
Total equity	**846,849**	135,696	90,565

NOTES

1. General information

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995.

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

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

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

Prior year adjustments

Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand"), for which 70.98% equity interest was acquired in the year of 2008 by the Group, owned an available-for-sale financial asset of equity securities (the "AFS Securities") at a cost of RMB700,000 at a time since 1997. The AFS Securities were unlisted securities before the year of 2004, when the investee company was successfully listed in the Shanghai Stock Exchange. The AFS Securities were subject to restriction for free trading since its listing up to May 2007.

During the year, management conducted a detailed review on the impairment of the AFS Securities. As a result of the review it was noticed that, the AFS Securities were inadvertently measured at cost less impairment loss in the books of Wuhan Grand for the period from the year of 2004 to the year ended 31 December 2010. Consequently, the Group re-measured the AFS Securities at their fair value since the date of the listing of shares in the investee company, with any changes in fair value, other than impairment losses, being charged or credited to the available-for-sale financial assets revaluation reserve in the period when the change occurs. Prior year adjustments were raised accordingly to reflect the re-measurement of the AFS Securities in accordance with the Company's accounting policies with details as follows:

	Notes	**As previously reported Dr/(Cr)** *HK$'000*	**Prior year adjustments Dr/(Cr)** *HK$'000*	**Year end balances, as restated Dr/(Cr)** *HK$'000*
1 January 2009				
Available-for-sale financial assets	*a*	21,202	2,143	23,345
Deferred tax liabilities	*a*	(44,683)	(536)	(45,219)
Available-for-sale financial assets revaluation reserve	*a*	—	303	303
Non-controlling interests	*a*	(84,350)	(466)	(84,816)
Accumulated losses	*b*	105,430	(1,444)	103,986
31 December 2009				
Available-for-sale financial assets	*a*	20,791	8,631	29,422
Deferred tax liabilities	*a*	(43,241)	(2,158)	(45,399)
Available-for-sale financial assets revaluation reserve	*a*	—	(3,151)	(3,151)
Non-controlling interests	*a*	(96,271)	(1,878)	(98,149)
Accumulated losses	*b*	81,453	(1,444)	80,009

The prior year adjustments represent:

(a) The fair value adjustment on the AFS Securities, deferred tax liabilities, the associated fair value gain (loss) transferred to the available-for-sale financial assets revaluation reserve and the non-controlling interests' share of the change in fair value, after tax, of the AFS securities.

(b) The decrease in the accumulated loss of the Group as at 1 January 2009 and 31 December 2009 as a consequence of the increase in the gain on bargain purchase on the acquisition of Wuhan Grand in the year of 2008, resulting from the fair value adjustment on the AFS Securities acquired by the Group via its purchase of 70.98% equity interest in Wuhan Grand in the year of 2008.

The prior year adjustments have no impact on the consolidated profit for the year attributable to owners of the Company for the year ended 31 December 2009, and hence there is no impact on the basic and diluted earnings per share for the year of 2009.

Comparative information has been restated to reflect the effect of this change to the corresponding account balances and the consolidated statement of financial position as at 31 December 2009 and 1 January 2009.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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
HK INT 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of the 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 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3(as revised in 2008) is as follows:

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of additional interests in Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo"), Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") (formerly known as Hubei Fuchi Pharmaceutical Company Limited), Hubei Grand EBE Pharmaceutical Company Limited ("Hubei Ruizhu") (formerly known as Hubei Ruizhu Pharmaceutical Company Limited) and Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), the Group has elected to measure the non-controlling interests at the non-controlling interests' share of the identifiable net assets at the date of acquisition.

HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current period, these changes in policies have affected the accounting for the acquisition of Hubei Fuchi and Hubei Ruizhu as follows:

	31 December 2010 *HK$'000*
Impact on consolidated statement of comprehensive income	
— Acquisition-related costs incurred but not recognized as part of the cost of acquisition leading to an increase in gain on bargain purchase for the year as a result of the adoption of HKFRS 3 (2008)	**(1,200)**
— Acquisition-related costs expensed when incurred charged to consolidated statement of comprehensive income leading to a decrease in profit for the year as a result of the adoption of HKFRS 3 (2008)	**1,200**
	—

In the current period, these changes in policies have affected the accounting for the acquisition of Zhejiang Xianle as follows:

	31 December 2010 *HK$'000*
Consolidated statement of comprehensive income	
— Acquisition-related costs expensed when incurred charged to consolidated statement of comprehensive income leading to a decrease in profit for the year as a result of the adoption of HKFRS 3 (as revised in 2008)	**750**
Consolidated statement of financial position	
— Acquisition-related costs expensed when incurred leading to decrease in goodwill recognised as a result of the adoption of HKFRS 3 (as revised in 2008)	**750**

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases 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 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the increases in Group's equity interest in existing subsidiaries of Wuhan Grand, Hubei Fuchi, Huanggang City Fuchi Pharmaceutical Company Limited ("Fuchi Pharmaceutical") and Hubei Fubo Chemical Company Limited ("Hubei Fubo") during the year, the impact of the change in policy was that the total difference of HK$2,014,000 between the consideration paid and carrying amount of the equity interests acquired was recognised in other reserve within equity. Had the previous accounting policy been applied, gain on bargain purchase of approximately HK$9,051,000 would have been recognised in profit or loss and additional goodwill of approximately HK$7,037,000 would have been recognised in consolidated statement of financial position. Therefore the change in accounting policy has resulted in a decrease in the profit for the period of HK$9,051,000 and no additional goodwill of HK$7,037,000 recognised.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

There is no effect of the above changes in accounting policies on the financial position of the Group as at 1 January 2009 and 31 December 2009 and on the calculation on the Group's basic and diluted earnings per share for the current and prior period as HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) are applied prospectively for the Group for the above changes.

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]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosure — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKFRS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK (IFRIC) — INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) — INT 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 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 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting period. All other debt investments and equity investments are measured at fair value at the end of subsequent accounting period. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting period.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, that amount of change in the fair value of the financial liabilities that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that affect until a detailed review has been completed.

HKAS 24 Related Party Disclosure (as revised in 2009) modifies the definition of a related party and simplifies disclosure for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group, because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangement that would fall within the scope of the amendment. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The directors of the Company anticipate that the application of 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 and segment information

For the year ended 31 December 2010, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. And the chief operating decision maker of the Group reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

The Group's revenue from external customers by geographical location of the customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**884,703**	422,256	**820,869**	380,610
America	**55,269**	49,325	**—**	—
Europe	**45,647**	25,111	**—**	—
Asia other than PRC	**58,666**	41,917	**—**	—
Others	**10,469**	6,826	**—**	—
Total	**1,054,754**	545,435	**820,869**	380,610

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

Information about major customers

For the years ended 31 December 2010 and 2009, none of the Group's sales from continuing operations to a single customer amounted to 10% or more of the Group's total revenue.

4. Other income

	2010	2009
	HK$'000	*HK$'000*
Rental income	**969**	681
Sales of raw materials, scrap and other materials, net	**8,100**	1,216
Dividend income	**—**	32
Reversal of impairment loss on trade and other receivables	**200**	631
Gain on disposal of property, plant and equipment	**—**	40
Bank interest income	**2,866**	421
Government grants *(Note)*	**122,482**	3,475
Gain recognised on re-measuring interest in an associate to fair value on business combination date	**2,648**	—
Others	**3,510**	1,123
	140,775	7,619

Note: During the year ended 31 December 2010, government grants of RMB100,000,000 (equivalent to approximately HK$114,943,000) were received by the Group from the 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in PRC for fulfillment of certain condition regarding the initiative of the relocation of the production facilities in Wuhan.

During the year ended 31 December 2010 and 2009, government grants of approximately HK$7,539,000 and HK$3,475,000 respectively have been received by the Group from the PRC Government or its agents as subsidy for the development and industrialisation of pharmaceutical products and for the encouragement of export sales by the Group without conditions attached thereto.

5. Other operating expenses

	2010	2009
	HK$'000	*HK$'000*
Amortisation of intangible assets	**330**	327

6. Finance costs

	2010	2009
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**18,068**	6,812
Interest on amount due to holding company	**1,687**	2,000
Effective interest on convertible bond	**1,345**	1,951
Effective interest on promissory note	**30,669**	15,884
Interest on discounted bills receivable with recourse	**191**	200
	51,960	26,847

7. Income tax expense

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
PRC	**5,794**	8,315
Deferred tax	**(1,905)**	(1,442)
	3,889	6,873

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

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

The income tax charge for the year is reconciled to the consolidated profit before tax as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before tax	**158,166**	48,786
Tax at the domestic income tax rate of 25% (2009: 25%)	**39,542**	12,196
Tax effect of share of profit of associates	**(787)**	(1,295)
Tax effect of expenses not deductible for tax purpose	**12,969**	10,177
Tax effect of income not taxable for tax purpose	**(36,881)**	(5,301)
Utilisation of deductible temporary differences previously not recognised	**—**	(715)
Income tax on concessionary rate	**(6,385)**	(8,268)
Tax effect of tax losses not recognised	**—**	79
Utilisation of tax losses	**(4,569)**	—
Tax charge for the year	**3,889**	6,873

The applicable tax rate of 25% (2009: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profits streams. Included in the above are tax losses of nil (2009: HK$316,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

8. Profit before tax

	2010	2009
	HK$'000	*HK$'000*
Profit before tax is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**105,497**	45,309
— Retirement benefits schemes contributions	**6,885**	5,373
	112,382	50,682
Depreciation of property, plant and equipment	**29,429**	11,282
Amortisation of prepaid lease payments	**5,927**	5,006
Amortisation of intangible assets	**330**	327
Total depreciation and amortisation	**35,686**	16,615
Auditors' remuneration		
— audit services	**1,500**	550
— non-audit services	**1,870**	—
Share of tax of associates	**342**	1,256
Cost of inventories recognised as an expense	**679,947**	295,341
Operating lease rentals in respect of land and buildings	**4,667**	1,875
Loss on disposal of available-for-sale financial assets	**—**	187
Loss (gain) on disposal of property, plant and equipment	**1,526**	(40)
Impairment loss on inventories	**961**	292
Impairment losses on financial assets		
— trade and other receivables	**2,682**	838
— reversal of impairment loss on trade and other receivables	**(200)**	(631)
Impairment losses on financial assets, net	**2,482**	207
Net foreign exchange losses	**4,282**	1,011

9. **Dividend**

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: 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:

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**97,973**	28,344
Effect of dilutive potential ordinary shares:		
Interest on convertible bond	**1,345**	1,951
Profit for the year for the purposes of diluted earnings per share	**99,318**	30,295

	2010	2009 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,477,418,331**	1,138,370,040
Effect of dilutive potential ordinary shares:		
Convertible bond	**23,234,565**	176,666,667
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,500,652,896**	1,315,036,707

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share in 2009 has been adjusted to reflect the bonus element in the issuance of shares under the open offer of the Company's shares during the year ended 31 December 2010.

11. Trade and other receivables

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
Trade receivables	**105,879**	30,306	22,462
Bills receivables	**86,380**	21,821	25,276
Discounted bills receivable	**—**	17,195	—
Other receivables, deposits and prepayments	**63,553**	21,855	22,472
Less: impairment loss on other receivables	**(9,407)**	(5,481)	(5,389)
	246,405	85,696	64,821

The Group allows a credit period of 30 — 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*
Within 90 days	**99,630**	29,252
91 — 180 days	**8,161**	2,999
181 — 365 days	**1,743**	39
Over 365 days	**30,249**	27,777
	139,783	60,067
Less: Accumulated impairment	**(33,904)**	(29,761)
	105,879	30,306

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable balance directly.

Trade receivables amounted to approximately HK$95,985,000 as at 31 December 2010 (2009: HK$25,889,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

(a) The movement in the impairment loss of trade receivables is as follows:

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**29,761**	35,400
Arising on acquisition of subsidiaries	**5,775**	—
Impairment losses recognised	**1,961**	701
Impairment losses reversed	**(84)**	(589)
Amount written off as uncollectible	**(5,416)**	(5,751)
Exchange realignment	**1,907**	—
Balance at end of the year	**33,904**	29,761

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The Group does not hold any collateral over these balances.

(b) The movement in the impairment loss of other receivables is as follows:

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**5,481**	5,389
Arising on acquisition of subsidiaries	**3,019**	—
Impairment losses reversed	**(116)**	(42)
Amount written off as uncollectible	**—**	(3)
Impairment losses recognised on other receivables	**721**	137
Exchange realignment	**302**	—
Balance at end of the year	**9,407**	5,481

(c) Ageing of trade receivables which are past due but not impaired

Included in the Group's trade receivable balances are balances with aggregate carrying amount of HK$9,894,000 (2009: 4,417,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 119 days (2009: 100 days).

	31 December 2010	31 December 2009
	HK$'000	*HK$'000*
Within 90 days	**7,747**	3,577
91 — 180 days	**1,658**	840
181 — 365 days	**489**	—
	9,894	4,417

12. Trade and other payables

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
Trade payables	**89,285**	42,316	41,367
Bills payables	**46,745**	21,035	37,302
Accrued charges and other creditors	**158,514**	74,553	63,571
	294,544	137,904	142,240

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

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*
Within 90 days	**64,849**	24,624
Over 90 days	**24,436**	17,692
	89,285	42,316

The average credit period on purchases of goods is 90 days.

The bills payables are mature within six months from the end of the reporting period.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

For the year ended 31 December 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 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, 武漢遠大弘元股份有限公司 Wuhan Grand Hoyo Company Limited ("Wuhan Hoyo") amended its Articles of Association such that 武漢遠大製藥集團有限公司 Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") shall have the right to nominate 4 out of 7 directors of Wuhan Hoyo. On 24 February 2010, an additional director was nominated by Wuhan Grand and appointed to the board of Wuhan Hoyo. As a result, Wuhan Grand has controlled the majority of the directors of Wuhan Hoyo. Wuhan Hoyo became a subsidiary of Wuhan Grand and its accounts have been consolidated into 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), currently known as 湖北遠大富馳醫藥化工股份有限公司 (Hubei Grand Fuchi Pharmaceutical and Chemical 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. The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the Group starting from June 2010. In December 2010, Wuhan Grand completed the acquisition of a further 6.95% equity interests in Hubei Fuchi, raising the shareholding to 82.42%.

(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 湖北瑞珠製藥有限公司 (Hubei Ruizhu Pharmaceutical Company Limited), currently known as 湖北遠大天天明製藥有限公司 (Hubei Grand EBE Pharmaceutical Company Limited) ("Hubei Ruizhu") from Zhuhai Zhongzhu and Hubei Yuanlinqing at a total consideration of approximately RMB110 million. The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the Group starting from May 2010.

(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. The acquisition of Zhejiang Xianle has been completed and its accounts have been consolidated into the Group starting from 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 taking legal action against Magnate Company Limited to protect its rights under the framework agreements.

(9) On 23 November 2010, the Company announced to raise approximately HK$278,516,000 by an open offer of 480,200,221 offer shares at a subscription price of HK$0.58 per offer share on the basis of one offer share for every three existing shares held by the qualifying shareholders. On 31 December 2010, 480,200,221 offer shares were issued and the net proceeds from the open offer of approximately HK$273,430,000 were used as to (i) approximately

HK$176,638,000 for repayment of the promissory note and part of other amount due to Outwit and (ii) approximately HK$70,000,000 for financing the acquisition of Zhejiang Xianle by means of repaying part of the bank loan obtained by the Group for the acquisition and (iii) the balance for general working capital and future acquisition purposes.

(10) On 25 November 2010, Wuhan Grand entered into the resumption and relocation compensation agreement with 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in relation to Wuhan Grand's agreement to surrender 3 pieces of industrial use land of an aggregate area of approximately 197,973 square meters situated at No. 5 Gutian Road and No. 8 Jiefang Road, Qiaokou District, Wuhan, Hubei Province (the "Wuhan Property") which is owned by Wuhan Grand, together with buildings, structures and attachments (including immovable plant and equipment) located thereon and thereunder to the Land Reserve Centre and to relocate its production facilities situated thereat to other locations and the Land Reserve Centre's agreement to compensate Wuhan Grand for the disposal. The compensation amounts to RMB855,000,000. The Wuhan Property is currently used as the production facilities of Wuhan Grand for the production of pharmaceutical preparations and raw material pharmaceuticals.

(11) On 27 December 2010, Wuhan Grand entered into a share transfer agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) (the "Wuhan Donghu"), pursuant to which Wuhan Donghu agreed to sell and Wuhan Grand agreed to purchase a 6.4% equity interests in Wuhan Hoyo for an aggregate consideration of RMB5,420,000. The shareholding in Wuhan Hoyo has increased from 56% to 62.4%.

For the year ended 31 December 2010, the Group recorded a turnover of HK$1,054,754,000 (2009: HK$545,435,000) which represents an increase of 93% as compared with that of the previous year. The increase was mainly attributable to the increase in Wuhan Grand's turnover and the inclusion of turnover generated from the newly acquired subsidiaries. Gross profit of the Group for the year under review was HK$374,807,000 (2009: HK$250,094,000). The gross margin achieved during the current year was about 36% (2009: 46%).

The Group reported a consolidated profit attributable to equity holders of the Company of HK$97,973,000 as compared with HK$28,344,000 for the previous year. The increase was mainly attributable to the relocation commencement fee recorded during the year and the increase in profit contributions from its subsidiaries. Profits generated from the Group's ophthalmic medicines increased due to the outbreak of the red-eye disease in the third quarter of 2010 in China. Furthermore, the rise in demand for respiratory medicines also increased the sales and profits of acetyl cysteine and carboxymethyl-L-cysteine.

Operating results

For the year ended 31 December 2010, the Group's operating results attributable to equity holders of the Company was HK$41,555,000 (2009: HK$28,935,000) which was calculated below after excluding the following non-operating incomes and expenses.

(in Hong Kong dollar thousands)	**2010**	2009
Profits attributable to owners of the Company	**97,973**	28,344
Less: Relocation commencement fee	**(84,679)**	—
Less: Gain on bargain purchase	**(15,936)**	—
Less: Fair value gain on issuance of the promissory note	—	(17,244)
Add: Effective interests on the convertible bond	**1,345**	1,951
Add: Effective interests on the promissory note	**30,669**	15,884
Add: Loan interests on acquisitions of subsidiaries	**9,498**	—
Add: Professional fees on acquisitions of subsidiaries	**2,685**	—
	41,555	28,935

Wuhan Grand

Wuhan Grand is mainly engaged in the development, production and sales of pharmaceutical preparations and raw material pharmaceuticals. For the year ended 31 December 2010, overall turnover increased by 28% when compared with that of the previous year. Turnover of pharmaceutical preparations and raw material pharmaceuticals recorded an increase of 30% and 26% respectively when compared with that of the previous year.

Overall gross margin for the year ended 31 December 2010 was 45% (2009: 46%). Gross margin for pharmaceutical preparations was 59% (2009: 57%) while those for raw material pharmaceuticals was 27% (2009: 31%).

Turnover and gross profit analysis of Wuhan Grand for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Preparations	**356**	273	223
Raw material pharmaceuticals	**260**	207	214
Turnover	**616**	480	437
Preparations	**210**	156	125
Raw material pharmaceuticals	**69**	65	45
Gross profit	**279**	221	170

For the year ended 31 December 2010, pharmaceutical preparations accounted for approximately 58% (2009: 57%) of the annual sales and approximately 75% (2009: 71%) of gross profit of Wuhan Grand. These products are mainly focus on cardiovascular, ophthalmic and antibiotic areas. Sales of Tirofiban, a key anti-platelet drug for the treatment of cardiovascular disease, has recorded a 10% growth in sales when compared with that of the previous year and it dominates the PRC hospital market. Tirofiban has been included in the Basic Medical Insurance National Drug Reimbursement List in December 2009. Sales of our ophthalmic medicines recorded an increase of approximately 30% when compared with that of the previous year, this is mainly attributable to the outbreak of red-eye disease in the third quarter of 2010 in China. Sales of our core products for the past three years were analysed as follows:

(in RMB millions)	**2010**	2009	2008
Tirofiban	**55**	50	30
Ophthalmic medicines	**51**	39	36
Enoxacin gluconate	**58**	36	32
Others	**192**	148	125
Turnover — preparations	**356**	273	223

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 year ended 31 December 2010, these raw material pharmaceuticals accounted for approximately 42% (2009: 43%) of the annual sales and approximately 25% (2009: 29%) of gross profit of Wuhan Grand. Sales of these core products for the past three years were analysed as follows:

(in RMB millions)	**2010**	2009	2008
Analgin	**166**	141	142
Metronidazole	**35**	31	35
Adrenaline and Noradrenaline bitartrate	**20**	18	17
Others	**39**	17	20
Turnover — raw material pharmaceuticals	**260**	207	214

Wuhan Hoyo

Wuhan Hoyo is mainly engaged in the manufacture and sales of amino acid. Wuhan Grand acquired an additional 6.4% equity interest in Wuhan Hoyo in December 2010 and it is now owned as to 62.4% by Wuhan Grand.

For the year ended 31 December 2010, turnover increased by approximately 34% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 20% (2009: 19%). The increase was mainly attributable to the increase in sales of acetyl cysteine and carboxymethyl-l-cysteine which are of a higher profit margin.

Turnover and gross profit of Wuhan Hoyo for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
L-cysteine HCI monohydrate	**44**	36	30
L-cysteine HCI anhydrous	**18**	19	16
Acetyl cysteine	**56**	29	17
Carboxymethyl-L-cysteine	**29**	14	12
Others	**28**	33	33
Turnover	**175**	131	108
Gross profit	**34**	25	15

Hubei Fuchi

Hubei Fuchi is principally engaged in the production of healthcare, chemical medicines and agrochemicals. Its main products include taurine, calcium superphosphate and dimethyl sulfate. Hubei Fuchi 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 period from 1 June 2010 to 31 December 2010, turnover and net profit after tax recorded by Hubei Fuchi amounted to RMB147,557,000 and RMB7,010,000 respectively. The Group recorded a discount of approximately HK$16,324,000 on the acquisition of Hubei Fuchi.

For the year ended 31 December 2010, turnover increased by 12% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 18% (2009: 20%).

Turnover and gross profit of Hubei Fuchi for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Calcium superphosphate	**84**	98	100
Dimethyl sulfate	**44**	24	46
Taurine	**40**	50	91
Others	**44**	17	56
Turnover	**212**	189	293
Gross profit	**39**	37	72

Hubei Ruizhu

Hubei Ruizhu is principally engaged in the production and sales of ophthalmic medicines and eye gel. 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. Ophthalmic medicines of Hubei Ruizhu cover most eye diseases including cataract, visual fatigue and trachoma. Following the acquisition of Hubei Ruizhu, the Group became one of the largest manufacturers of ophthalmic medicines in China.

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 period from 1 May 2010 to 31 December 2010, turnover and net profit after tax recorded by Hubei Ruizhu amounted to RMB16,667,000 and RMB7,060,000 respectively. The Group recorded a discount of approximately HK$5,307,000 on the acquisition of Hubei Ruizhu.

For the year ended 31 December 2010, turnover increased by 33% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 52% (2009: 31%). The increase was mainly attributable to the better utilization of the Group's sales network after Hubei Ruizhu was acquired by Wuhan Grand.

Turnover and gross profit of Hubei Ruizhu for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Eye drops	**12**	10	5
Eye gels	**8**	5	2
Turnover	**20**	15	7
Gross profit/(loss)	**10**	5	(3)

Zhejiang Xianle

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.

Currently, three raw material pharmaceutical products of Zhejiang Xianle have received GMP certification from the PRC authorities and two other products have received Europe COS certification from EDQM. Zhejiang Xianle is also applying Europe COS and USA FDA certifications for other main products.

The acquisition of Zhejiang Xianle has been completed and its accounts have been consolidated into the accounts of the Group starting from October 2010. For the period from 1 October 2010 to 31 December 2010, turnover and net profit after tax recorded by Zhejiang Xianle amounted to RMB35,210,000 and RMB3,243,000 respectively. The Group recorded a goodwill of approximately HK$54,944,000 on the acquisition of Zhejiang Xianle.

For the year ended 31 December 2010, turnover increased by 9% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 25% (2009: 29%). The decrease in gross margin was mainly attributable to the increase in cost of production raw materials which was not passed on to customers as Zhejiang Xianle intended to increase its market share and enhance its competitiveness.

Turnover and gross profit of Zhejiang Xianle for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Betamethasone	**63**	58	40
Beta-hydroxyprogesterone	**32**	28	22
16-beta-methyl expoxide	**29**	28	12
Cyproterone acetate	**24**	15	12
Dexamehasone	**12**	21	26
Others	**9**	6	10
Turnover	**169**	156	122
Gross profit	**42**	45	34

PROSPECTS

The Group will continue to focus on the three main business lines, namely (i) ophthalmic medicines, (ii) cardiovascular drugs and (iii) health products & raw materials pharmaceuticals. The Group plans to expand its share of the above three markets by external acquisitions and internal product research and development.

The relocation of our production facilities in Wuhan is progressing as planned. The Group will take this opportunity to increase its production capacity. The Group intends to develop the existing production site of Hubei Fuchi and its vicinity area into China Grand Pharmaceutical Industrial Park. The park will be developed into three 3 major areas, namely, (1) the pharmaceutical products production area which will be further divided into the general pharmaceutical production area and the internationally-certified fine pharmaceutical production area, (2) the health food additive products production area and (3) the active pharmaceutical ingredient products production.

The general pharmaceutical production area will mainly produce antipyretic and analgesic pharmaceuticals, antibiotics, semi-synthetic antibiotics, cardiovascular pharmaceuticals, such as analgin, enoxacin and ethambutol.

The internationally-certified fine pharmaceutical production area will be used mainly for the development of high-end fine pharmaceutical products, such as adrenaline/noradrenaline bitartrate and other active pharmaceutical ingredients ("API") including anti-cholestrol APIs and also hypertension APIs.

The health food additive products production area is primarily used to develop taurine products, which are the major ingredients used in domestic and international markets for energy drinks. The Group plans to gradually expand its production capacity of taurine products so as to become one of the largest manufacturers in the world, and at the same time, accelerate its development of amino acid products.

Hubei Ruizhu will produce all ophthalmic medicines while a new production site in Wuhan Jinyin Lake will produce other pharmaceutical preparations.

The operations and production currently carried on at the existing production facilities located at the Wuhan Property will continue until the new production facilities are ready for production. The Group will ensure the disruption to the overall operations and production is kept minimal.

Zhejiang Xianle also plans to expand production and increase production capacity in order to meet the demand for its products. Zhejiang Xianle will acquire a piece of 133,333 square meters land located at Jiangsu Bihai Economic Development Zone Coastal Industrial Park to increase the production capacity of steroid hormones APIs.

The Group will continue to build a full and sustainable new product pipeline through internal research and external project cooperation with pharmaceutical research institutes. Currently, there are several new products under development with these well-known research institutes. The development of Candesartan Cilexetil and Hydrochlorothiazide capsules, Olprinone injection and Telmisartan/Amlodipine tablet will effectively expand our new product pipelines in cardiovascular therapeutic area; the development of Penciclovir injection will further reinforce our market position in anti-infections therapeutic area. The Group is also developing two drugs for lung cancer.

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.

The Group 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 31 December 2010, the Group had current assets of HK$828,941,000 (31 December 2009: HK$207,300,000) and current liabilities of HK$636,507,000 (31 December 2009: HK$264,450,000). The current ratio was 1.3 at 31 December 2010 as compared with 0.78 at 31 December 2009.

The Group's cash and bank balances as at 31 December 2010 amounted to HK$306,999,000 (31 December 2009: HK$60,227,000), of which 7% were denominated in Hong Kong and United States Dollars and 93% in Renminbi.

As at 31 December 2010, the Group had outstanding bank loans of HK$346,717,000 (31 December 2009: HK$92,195,000). Included in the bank loans, there was a bank loan of approximately HK$3,188,000 which was denominated in US$ and a bank loan of approximately HK$30,000,000 which was denominated in HK$. All other bank loans are denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.56% to 5.56% (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$98,120,000 (31 December 2009: HK$205,667,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 61% at 31 December 2010 as compared with 246% at 31 December 2009.

On 18 February 2010, Outwit completed the placing of 200,000,000 existing shares to investors and the subscription of 200,000,000 new shares of the Company. The net proceeds from the subscription amounted to approximately HK$86,360,000. On 18 February 2010, Outwit opted to convert fully the HK$50,000,000 convertible bond into shares of the Company.

In December 2010, the Company completed the open offer on the basis of one offer share for every three existing share, raising approximately HK$273,430,000, further improving the financial position of the Company. The proceeds from the open offer were applied as to (i) approximately HK$176,638,000 for repayment of the promissory note and part of other amount due to Outwit; (ii) approximately HK$70,000,000 for financing the acquisition of Zhejiang Xianle by means of repaying part of the bank loan obtained by the Group for the acquisition and (iii) the balance for general working capital and future acquisition purposes.

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 31 December 2010, the Group employed about 3,600 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 the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

REVIEW OF AUDIT COMMITTEE

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2010, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

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 all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2010.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

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

Hong Kong, 21 March 2011

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.