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 2011

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 2011 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	3	**1,647,576**	1,054,754
Cost of sales		**(1,132,477)**	(679,947)
Gross profit		**515,099**	374,807
Other income	4	**78,429**	140,775
Distribution costs		**(261,906)**	(207,939)
Administrative expenses		**(205,911)**	(121,967)
Other operating expenses	5	**(346)**	(330)
Gain on bargain purchase		**–**	21,631
Share of results of associates		**504**	3,149
Finance costs	6	**(26,405)**	(51,960)
Profit before tax		**99,464**	158,166
Income tax expense	7	**(12,793)**	(3,889)
Profit for the year	8	**86,671**	154,277
Other comprehensive income			
Exchange difference on translation of foreign operations		**24,381**	20,669
Change in fair value of available-for-sale financial assets, after tax		**(3,844)**	3,746
Other comprehensive income for the year		**20,537**	24,415
Total comprehensive income for the year		**107,208**	178,692

* *For identification only*

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Profit for the year attributable to:			
– Owners of the Company		**54,235**	97,973
– Non-controlling interests		**32,436**	56,304
		86,671	154,277
Total comprehensive income attributable to:			
– Owners of the Company		**70,963**	118,435
– Non-controlling interests		**36,245**	60,257
		107,208	178,692
Earnings per share	*10*		
Basic (HK cents)		**2.82**	6.63
Diluted (HK cents)		**2.82**	6.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**726,068**	450,918
Prepaid lease payments		**365,228**	246,114
Interests in associates		**8,469**	5,076
Available-for-sale financial assets		**51,737**	35,055
Deposits for acquisition of non-current assets		**74,680**	42,444
Goodwill		**72,037**	54,944
Intangible assets		**649**	958
Deferred tax assets		**3,623**	2,221
Prepayments		**23,984**	20,415
Loan receivables		**17,247**	–
		1,343,722	858,145
Current assets			
Inventories		**319,163**	216,168
Trade and other receivables	11	**341,280**	246,405
Loan receivable		**7,392**	–
Prepaid lease payments – current portion		**9,303**	6,677
Pledged bank deposits		**66,939**	52,692
Bank balances and cash		**343,348**	306,999
		1,087,425	828,941
Current liabilities			
Trade and other payables	12	**300,695**	294,544
Financial guarantee liabilities		**–**	427
Bank borrowings		**695,231**	306,717
Tax payable		**34,871**	34,819
		1,030,797	636,507
Net current assets		**56,628**	192,434
Total assets less current liabilities		**1,400,350**	1,050,579
Non-current liabilities			
Bank borrowings		**36,834**	40,000
Deferred tax liabilities		**82,816**	67,621
Amount due to holding company		**12,656**	12,580
Deferred income		**298,125**	83,529
		430,431	203,730
Net assets		**969,919**	846,849
Capital and reserves			
Share capital		**19,208**	19,208
Reserves		**619,970**	548,578
Equity attributable to owners of the Company		**639,178**	567,786
Non-controlling interests		**330,741**	279,063
Total equity		**969,919**	846,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

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

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

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

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements
(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adpoters[1]
	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

- 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 amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the 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, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge a 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 presented in profit or loss.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of *HKAS 27 Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces *HKAS 31 Interests in Joint Ventures* and *HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under *HKFRS 7 Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 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 may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate the application of other new and revised HKFRSs 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 2011, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**1,179,231**	884,703	**1,288,362**	820,869
America	**86,686**	55,269	**–**	–
Europe	**204,725**	45,647	**–**	–
Asia other than PRC	**141,625**	58,666	**–**	–
Others	**35,309**	10,469	**–**	–
Total	**1,647,576**	1,054,754	**1,288,362**	820,869

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

Information about major customers

For the years ended 31 December 2011 and 2010, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

4. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Government grants *(note (a))*	50,087	122,482
Compensation for loss of property, plant and equipment *(note (b))*	10,058	–
Bank interest income	4,837	2,866
Sales of raw materials, scrap and other materials, net	4,294	8,100
Gain on disposal of property, plant and equipment	3,964	–
Investment income	1,865	–
Rental income	783	969
Reversal of impairment loss on trade and other receivables	463	200
Write-back of financial guarantee liabilities	427	–
Dividend income from available-for-sale financial assets	325	–
Gain recognised on re-measuring interest in an associate to fair value on business combination date	–	2,648
Others	1,326	3,510
	78,429	140,775

Note:

(a) 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 2011 and 2010, government grants of approximately HK$50,087,000 and HK$7,539,000 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 and investment by the Group in certain area of the PRC without conditions attached thereto. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Included in the amount there is a compensation of approximately RMB8,350,000 (equivalent to approximately HK$10,058,000) from an insurance company for property, plant and equipment with carrying amounts of approximately RMB6,648,000 (equivalent to approximately HK$8,008,000) which were written off in a fire accident during the year.

5. OTHER OPERATING EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Amortisation of intangible assets	**346**	330

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**25,924**	18,068
Interest on amount due to holding company	**481**	1,687
Effective interest on convertible bond	**–**	1,345
Effective interest on promissory note	**–**	30,669
Interest on discounted bills receivable with recourse	**–**	191
	26,405	51,960

7. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
PRC	**14,850**	5,794
Deferred tax	**(2,057)**	(1,905)
	12,793	3,889

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

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

According to the relevant 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 tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011 *HK$'000*	2010 *HK$'000*
Profit before tax	**99,464**	158,166
Tax at the domestic income tax rate of 25% (2010: 25%)	**24,866**	39,542
Tax effect of share of profit of associates	**(126)**	(787)
Tax effect of expenses not deductible for tax purpose	**12,221**	12,969
Tax effect of income not taxable for tax purpose	**(4,916)**	(36,881)
Tax effect of deductible temporary differences not recognised	**2,746**	–
Effect of tax exemptions granted to PRC subsidiaries	**(5,778)**	–
Income tax on concessionary rate	**(8,350)**	(6,385)
Utilisation of tax losses previously not recognised	**(7,870)**	(4,569)
Tax charge for the year	**12,793**	3,889

The applicable tax rate of 25% (2010: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

8. PROFIT FOR THE YEAR

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**200,216**	145,023
– Retirement benefits schemes contributions	**13,323**	6,885
	213,539	151,908
Depreciation of property, plant and equipment	**45,669**	29,429
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**6,722**	5,927
Amortisation of intangible assets (included in other operating expenses)	**346**	330
Total depreciation and amortisation	**52,737**	35,686
Impairment losses on financial assets		
– trade and other receivables	**2,605**	2,682
– reversal of impairment loss on trade and other receivables (included in other income)	**(463)**	(200)
Impairment losses on financial assets, net	**2,142**	2,482

	2011	2010
	HK$'000	*HK$'000*
Auditors' remuneration		
– audit services	**1,880**	1,500
– non-audit services	**–**	1,870
Share of tax of associates	**147**	342
Cost of inventories recognised as an expense	**1,132,477**	679,947
Operating lease rentals in respect of land and buildings	**6,809**	4,667
(Gain) loss on disposal of property, plant and equipment	**(3,964)**	1,526
Write-off of property, plant and equipment	**8,008**	–
Impairment loss on inventories	**1,297**	961
Net foreign exchange losses	**8,252**	4,282

9. DIVIDEND

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: 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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share	**54,235**	97,973
Effect of dilutive potential ordinary shares: Interest on convertible bond	**–**	1,345
Earnings for the purposes of diluted earnings per share	**54,235**	99,318

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,920,801**	1,477,418
Effect of dilutive potential ordinary shares: Convertible bond	**–**	23,235
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,920,801**	1,500,653

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

11. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables, net	**176,796**	105,879
Bills receivables	**94,090**	86,380
Other receivables, deposits and prepayments	**97,653**	63,553
Less: impairment loss on other receivables	**(27,259)**	(9,407)
	341,280	246,405

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

	2011 HK$'000	2010 HK$'000
Within 90 days	**143,110**	99,630
91 -180 days	**24,293**	8,161
181 – 365 days	**11,630**	1,743
Over 365 days	**17,885**	30,249
	196,918	139,783
Less: Accumulated impairment	**(20,122)**	(33,904)
	176,796	105,879

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 and other receivable balances directly.

Trade receivables amounted to approximately HK$142,392,000 as at 31 December 2011 (2010: HK$95,985,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade receivables are amount due from the Group's associate of HK$815,000 (2010: nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

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

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	**33,904**	29,761
Arising on acquisition of subsidiaries	**6,433**	5,775
Impairment losses recognised	**2,545**	1,961
Impairment losses reversed	**(420)**	(84)
Amount written off as uncollectible	**(24,568)**	(5,416)
Exchange realignment	**2,228**	1,907
Balance at end of the year	**20,122**	33,904

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.

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

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**9,407**	5,481
Arising on acquisition of subsidiaries	**16,907**	3,019
Impairment losses reversed	**(43)**	(116)
Amount written off as uncollectible	**285**	–
Impairment losses recognised on other receivables	**60**	721
Exchange realignment	**643**	302
Balance at end of the year	**27,259**	9,407

(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$34,404,000 (2010: HK$9,894,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 121 days (2010: 119 days).

Ageing of trade receivables which are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**23,095**	7,747
91 –180 days	**11,080**	1,658
181 – 365 days	**229**	489
	34,404	9,894

12. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**100,079**	89,285
Bills payables	**45,081**	46,745
Accrued charges and other creditors	**155,535**	158,514
	300,695	294,544

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

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**72,083**	64,849
Over 90 days	**27,996**	24,436
	100,079	89,285

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.

BUSINESS REVIEW

The Group is mainly engaged in research & development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialized pharmaceutical raw materials and Healthcare products. Core products of pharmaceutical preparations include cerebro -cardiovascular diseases, ophthalmic drops and gel, antipyretic and analgesic medicines, etc. The major products for pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and our healthcare core products include taurine, etc. The Group committed to expand business through self-expansion and acquisition of related medical assets in order to maintain relatively high growth rate, and it also aims to become one of the largest pharmaceutical manufacturers of pharmaceutical and healthcare products in the PRC.

For the year ended 31 December 2011, the following events have taken place:

(1) In May 2011, Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")(the Company owned 67% of its equity interest) set up Jiangsu Grand Xianle Pharmaceutical Company Limited ("Jiangsu Xianle"). Once Jiangsu Xianle completed its plant construction, it will focus on the research and development of new species of steroid hormones intermediates, and it may significantly enhance the production capacity and improve the quality of our current steroid hormones product series. This can also allow us to actively seek ways for achieving international certification of our products and thus improve the profitability of the Group.

(2) In September 2011, Grand Pharm (China) Company Limited ("Grand Pharm (China)"), an indirect non-wholly-owned subsidiary of the Group, signed a sale and purchase agreement to acquire approximately 81% equity interest of Wuhan Kernal Biotech Company Limited ("Wuhan Kernal"). According to PRC National economic and social development "Twelve-Five Plan" as well as the scientific and technological development "Twelve-Five" plan, they all stated that biotechnology is an emerging market and should provide support from this market. The Group has a long-term strategic vision and has actively followed the national policy through merger and acquisition to enter into the biotechnology field. Wuhan Kernal is mainly engaged in research & development in biotechnology, manufacturing and sales of bio-pesticides and bio-additives products, etc. Its technology is at international standard, and it owns the facilities for fermentation and expertises in biological enzymatic technology. The Group expects Wuhan Kernal could provide a platform for good testing, new product innovation and commercial production to the Group for the development of amino acids products. It is also expected that it can allow us to obtain technical advantages in bio-enzyme field and result synergy effects, and thus enhance the quality of products, enlarge the production capacity, reduce the production costs, and resulted a fruitful return to the Group. The transaction was completed in November 2011, Wuhan Kernal becomes an indirect non wholly-owned subsidiary of the Company.

Turnover

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK$1,647,576,000 (2010: HK$ 1,054,754,000) which represents an increase of approximately 56% as compared with last year. The gross profit margin was approximately 31.3%, while it was approximately 35.5% in last year. This is mainly due to approximately of 30% increment of the turnover of pharmaceutical raw materials and intermediates, while the gross profit margin of these products was relatively lower in compare with pharmaceutical preparations. The profit attributable to the owners of the Company of this year was approximately HK$ 54,235,000, which recorded an increment of approximately 31% in compared with the profit attributable to the owners of the Company of last year, which was approximately HK$ 41,555,000 after excluding the one-off relocation compensation and non-operating income and expenses.

In 2010, the Group has acquired equity interests of three subsidiaries, which were Hubei Grand Everyday Bright Eyes Company Limited ("Hubei Grand EBE"), which is principally engaged in sales and manufacturing of ophthalmic medicines; Zhejiang Xianle which is principally engaged in sales and manufacturing of steroid hormones and Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Grand Fuchi"), which is principally engaged in sales and manufacturing of agrochemical and fine chemicals. These three subsidiaries have also brought financial contribution to the Group and developed a strong synergy effect among the products and technology, which in turn help the Group to enhance its products quality, turnover and profits.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit. In 2011, the turnover of pharmaceutical preparations was RMB425.21 million, its gross profit margin was approximately 63% compared to 59% in previous year, it represents a substantial increment. Core products of pharmaceutical preparations include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc.

- **Cerebro-cardiovascular Diseases**

  The cerebro-cardiovascular medicines of the Group is one of the dominate medicine in the market. Such products are mainly used in first-aid purpose, and its core products include "Tirofiben". In 2011, the Group sold over 500,000 units and contributed approximately RMB63.1 million turnover to the Group, which is approximately 14% increment in compared with the previous year. Other major cerebro-cardiovascular medicines of the Group like Adrenaline Bitartrate and Noradrealine Bitartrate had turnover of approximately RMB30.95 million and RMB20.33 million respectively.

- **Ophthalmic Medicines**

  Since the completion of acquiring Hubei Grand Fuchi in May 2010, the Group has became one of the ophthalmic medicine manufacturers with advanced technology, wide product range and the largest production scale in PRC, and it became one of the major business growing point in pharmaceutical preparations products of the Group. The Group totally sold approximately RMB116.43 million of ophthalmic medicines in 2011, which was increased by approximately 47% when compared with that of the previous year. Apart from the market leader in PRC, "Bai Nei Ting", the Group also put effort on exploring other ophthalmic medicines, such as anti-visual fatigue "Polyvinyl Alcohol Eye Drops" and anti-infectious "Levofloxacin Hydrochloride Eye Gel". The turnover of Polyvinyl Alcohol Eye Drops approximately RMB14.73 million which recorded approximately 2.6 times increment in compared with 2010. "Levofloxacine Hydrochloride Eye Gel" has contributed approximately RMB21.12 million turnover to the Group which recorded approximately 1.7 times increment in compared with 2010.

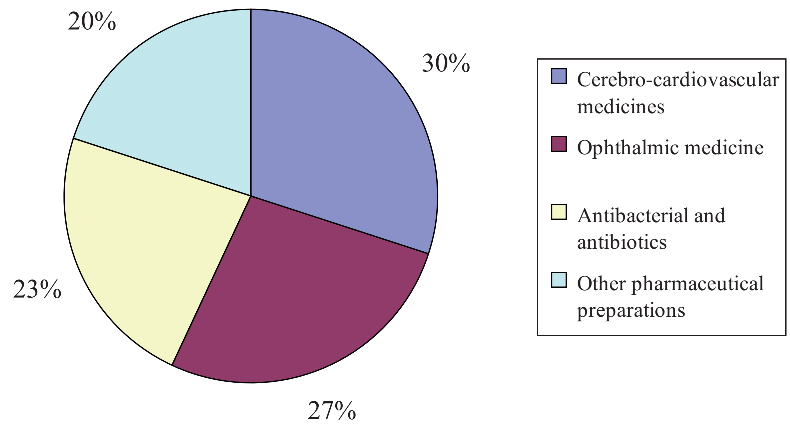
- **Antibacterial and antibiotics**

  "Metronidazole" and "Enoxacin" produced by the Group also played as leading roles in the PRC pharmaceutical market. During this fiscal year, the turnover of Metronidazole was approximately RMB25.54 million, which including both tablets and injection agents. Its increment in compared with previous year is approximately 3%, and its gross profit margin also recorded a significant increment from 21% in 2010 to 32%, since we can fulfill the market demands of variety of packaging. Due to the changes of regulations regarding the application of antibiotics by the competent department of the pharmaceutical, it triggered a relatively large fluctuation of market prices and market structure and thus affected the sales result of "Enoxacin" and its related products of the Group. In 2010, its turnover amount was approximately RMB60.16 million, while it recorded a slight decrease to approximately RMB49.37 million this year. Although the turnover amount decreased, the Group still actively devoted resources into technology research, enhancement of product quality and optimization of product structure, which may lead the Group to record a surge in its gross profit margin during this year.

- **Other Pharmaceutical Preparations**

  The turnover of other pharmaceutical preparations remained stable in this year. Both tablet and injection agents of "Analgin", which is classified as antipyretics and analgesic medicine, also recorded a reduction in turnover amount due to the economy downturn of oversea countries. The turnover amount decreased from approximately RMB39.49 million in 2010 to approximately RMB28.18 million in this year. However, the Group was actively seeking for emerging markets, and "Analgin" has successfully launched in Africa, South America and other developing countries and is expected to provide positive contribution to the Group in the coming years.

The turnover amount of major pharmaceutical preparations in this year is showed as below:



Pharmaceutical intermediates

The pharmaceutical intermediates manufactured and sold by the Group mainly include "Analgin", "Metronidazole", "Chloramphenicol" and other amino acids intermediates. In 2011, the Group has sold approximately RMB494.15 million pharmaceutical intermediates to domestic and overseas customers, and achieved gross profit of approximately RMB85.22 million.

- **Analgin and Metronidazole**

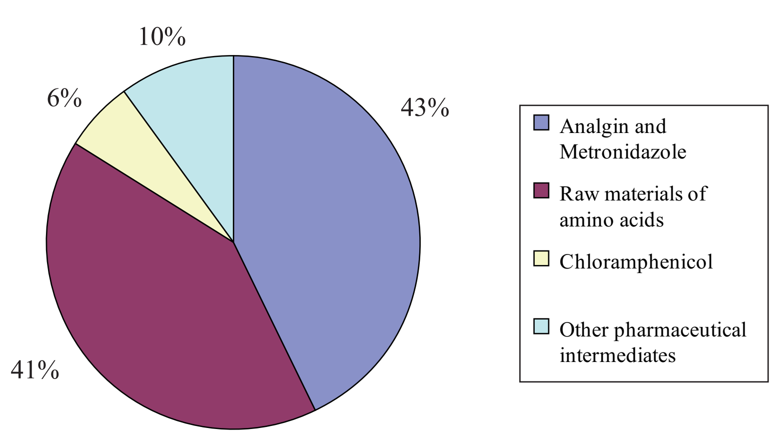
  The Group is one of the largest manufacturers of "Analgin" and "Metronidazole" in the PRC, and we also export these products to countries in South America and Southeast Asia. Turnover of "Analgin" during this year was approximately RMB178.92 million, which was increased by approximately 8% in compared with previous year. "Metronidazole" recorded approximately RMB34.82 million turnover this year, which had a similar figure as last year.

  "Chloramphenicol" is one of the main pharmaceutical raw materials of antibiotics. Turnover of "Chlorampnenicol" this year was approximately RMB30.91 million, while it was approximately RMB16.01 million last year, and the growth rate was approximately 93%.

- **Amino acids and its intermediates**

  The Group is one of the largest manufacturers of producing and sales of amino acids and its intermediates in PRC. The core products include "Acetyl Cysteine" series. These are manufactured and sold by Wuhan Grand Hoyo Company Limited ("Wuhan Hoyo"), which the Group acquired additional interest of Wuhan Hoyo in March and December 2010 and effectively owns 45.97% equity interest. Since the completion of the acquisition, the management has strengthened the operation management and explored more new markets. The overall turnover in 2011 was approximately RMB200.33 million which is increased by approximately 14% in compared with 2010. Wuhan Hoyo focuses about the quality of its products, and its core product "Acetyl Cysteine" was certified by the Europe EDQM of the COS certification in October 2011, and it also became one of the largest exporters of "Acetyl Cysteine" in PRC.

The turnover amount of major pharmaceutical intermediates in this year is showed as below:



Steroid Hormones and its intermediates

After the completion of acquisition of Zhejiang Xianle in October 2010, the Group posses the competence of manufacturing and sales of steroid hormones and became one of the few steroid hormones raw materials manufacturers in PRC. The production techniques and quality of products are the superiority of Zhejiang Xianle. Recently, one of its core products has passed the quality assurance test of Europe EDQM, and successfully received Europe COS certification. These incidents have upgraded the product grading and consolidated the foundation of obtaining orders from international high-end customers. In 2011, the turnover of the Group in steroid hormones was approximately RMB186.07 million, which was increased by approximately 10% in compared with last year. The steroid hormones intermediates sold by the Group mainly include glucocorticoid and sex hormones. The Group has sensed the increasing demand of steroid hormones in medical treatment field and market, and it has already taken precaution with proactively attitude to fulfill such demands. In 2011, "Jiangsu Xianle" has already commenced new plant construction and addition of product lines to expand the production capacity, increase the production facilities for new products and enhance the production technology, in order to stimulate rapid growth of the Group.

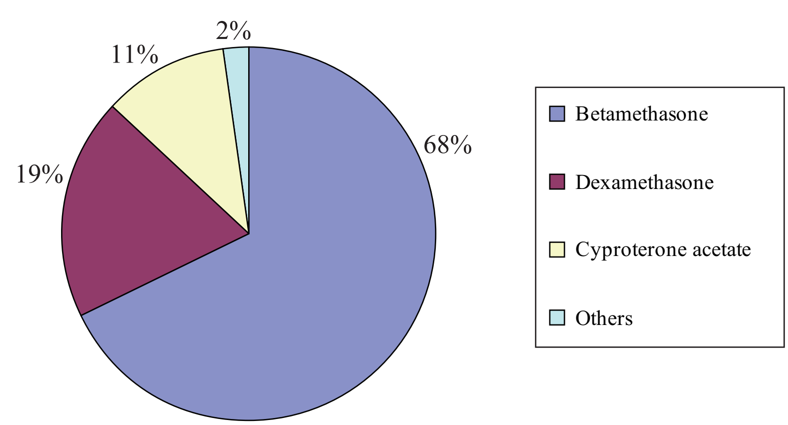
- **Glucocorticoid**

  The glococorticod sold by the Group include "Betamethasone" and "Dexamethasone", which are the pharmaceutical raw materials for anti-inflammatory and anti-allergic medicines. The "Betamethasone" is currently staying at leading position in PRC. The turnover of "Betamethasone" series was recorded as approximately RMB125.42 million during this year, which was increased by approximately 13% in compared with previous year. The turnover of "Dexamethasone" was approximately RMB35.55 million, which was increased by approximately 11% in compared with previous year.

- **Sex Hormones**

  "Cyproterone Acetate" is one of the core products of the Group in sex hormones product series. It is male hormones used in treatment for prostate cancer and benign prostatic hyperplasia diseases. In 2011, the turnover was approximately RMB20.64 million, and the sales volume was approximately 3,175kg. Achieving sustainable and steady growth is the long term goal of Zhejiang Xianle. In order to cope with the demands from markets and future development, the Group has added new product lines in Zhejiang Xianle during the year and thus enlarge the production capacity.

The turnover amount of major products of steroid hormones in this year is showed as below:



Healthcare and chemical products

Hubei Grand Fuchi became a subsidiary of the Group since June 2010, and it is mainly engaged in production and sales of healthcare products, chemical medicines and agrochemicals including "Taurine", "Calcium Superphosphate" and "Dimethyl Sulfate", etc. In 2011, the turnover of these products of the Group was approximately RMB269.60 million, and its gross profit was approximately RMB37.07 millions.

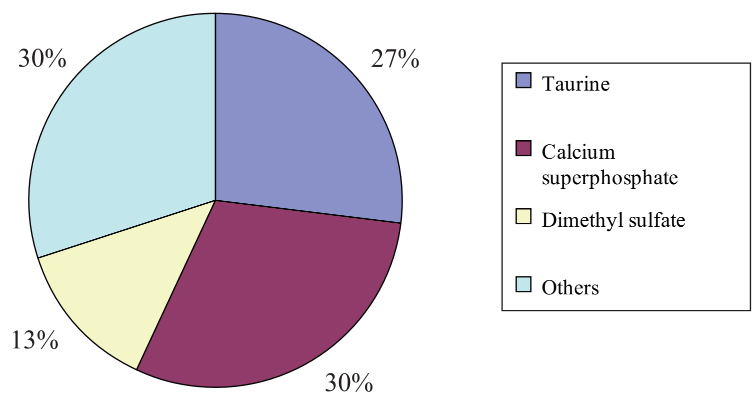
- **Taurine**

  "Taurine" is one of the main ingredients in energy drinks. Western countries literatures stated that Taurine plays an important role in brain function and development, and it could also increase growth rate and maintenance rate of neurons and helps function and development of skeletal muscles, retina and central nervous system. The Group is one of the market leaders of, and also one of the largest exporters of, "Taurine" in PRC. The Group completed several production technology enhancement projects during 2011 and thus improve yield and quality of products which resulted a growing number of high-end customers. In 2011, the Group has sold approximately RMB72.72 million of "Taurine", which increased over 80% comparing with previous year.

- **Calcium Superphosphate and Dimethyl Sulfate**

  "Calcium Superphosphate" is agrochemicals, and the product of the Group is one of the well-known brands in PRC. "Dimethyl Sulfate" can be used as fine chemicals in various pharmaceutical productions, and it is an essential raw material to some of the product manufactured by the Group. The Group ranked at top 3 manufacturers of these products in PRC. Due to the demand changes of the market, the turnover of "Calcium Superphosphate" and "Dimethyl Sulfate" were approximately RMB79.81 million and RMB36.32 million respectively, which was slightly decreased by approximately RMB4 million and RMB8 million respectively in compared with last year.

The turnover amount of major products of healthcare products and fine chemicals in this year is showed as below:



Distribution costs

Distribution costs of this year was approximately HK$261.91 million, which is increased by approximately HK$53.97 million in compared with previous year. The turnover of this year increased by approximately 56% and thus resulted increment of the distribution cost. Since the Group acquired several new subsidiaries in last year, the overall product pool has been expanded. In order to coordinate with the existing products, this year the Group had contributed more resources in promoting these new products such as television and newspaper advertisements and thus boost the market share of our products.

Administrative expenses

For the year ended 31 December 2011, the administrative expenses of the Group were approximately HK$205.91 million while it was approximately HK$121.97 million last year. The increment was mainly due to the Group has entered a few acquisition in 2010 in order expand the size of the Group. In order to maintain the daily operation and expand the business scope of these new subsidiaries, the Group additionally used approximately HK$52.83 million in 2011.

Finance costs

The financial costs were approximately HK$26.41 million in this year, which was decreased by approximately 49% as compared with 2010. This is mainly due to the Group has fully converted the convertible bond and repaid the promissory note in 2010, and we also adjusted the combination of bank loans in order to substantially reduce the finance costs.

Relocation progress of manufacturing plants of Grand Pharm (China)

At the end of 2010, Grand Pharm (China) 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 Center") and will receive a relocation compensation amounts to RMB855,000,000. Grand Pharm (China) will fully utilize the compensation by constructing new production plants and acquire new production facilities to enhance manufacturing efficiency, product quality and production capacity.

The new plant will be gradually constructed in the following four territories in accordance with the product production plan: 1. Wuhan Jin Yin Hu (production base of pharmaceutical preparations including Cerebro-cardiovascular medicines, etc, excluding Everyday Bright Eyes); 2. Huang Shi Yang Xin Xian (production base of pharmaceutical raw materials and intermediates); 3. Hubei Everyday Bright Eyes (production base of ophthalmic medicines); and 4. Jiangsu Xianle (production base of pharmaceutical used steroid hormones and its intermediates). Currently, the construction plan and design of all four territories have been completed, in which the construction is running smoothly and progresses are within schedule. The construction of major plants at Wuhan Jin Yin Hu territory, such as pharmaceutical preparations building, solid production building and liquid production building, etc had already completed, and it is about to enter into substantive relocation stage. The foundation work of the production base of pharmaceutical raw material and intermediates at Huang Shi Yang Xin Xian has completed and the relocation of production facilities will take place progressively. Currently, the test-run of a few products such as taurine and analgin are in progress, and the new production plant of Hubei Everyday Bright Eyes has completed and the newly added production lines are under installation and testing. The construction of new plant at Jiangsu Xianle has already launched, and it is expected that it can enhance the production capacity of steroid hormones and also reduce the production cost, which may in turn improve the gross profit level of the Group in related to such product kind.

These four major plants which are currently under construction will become an important foundation for the future development of the Group. The implementation of new production bases and facilities could enlarge production capacity and also lead production facilities to achieve international high-end quality certification. Furthermore, it may also lead the members of the Group to reform their technology and the advanced facilities may also enhance the product quality and production efficiency and this reduce production cost. These plants will also become a good production facility for the new products which are currently at the research and development stage. It is believed that the completion of the production base and the commencement of production would bring a leap forward of turnover and profitability of the Group.

Prospects

For the market scope, IMS Health applied their unique marketing forecasts methodology and predictive ability, and divide the emerging market into three segments. In 2006, 7 countries were classified as the emerging markets, including PRC, Brazil, Mexico, India, Russia, Korea and Turkey; up to now, it has increased to 17 countries. The GDP of PRC has already over USD8 trillion, and IMS Health forecasted that the pharmaceutical market of PRC would spring up to the 3rd in the world in 2011, from the 8th position in 2006. Quote from a Vice President of IMS Health, "The global pharmaceutical industry formed a new pattern due to the fast pace of growth of market share in emerging markets. Under all these changes, PRC will become an independent segment." The compound annual growth rate of PRC pharmaceutical market will increase in a rapid way in compared with the global average level, and the market position of PRC will spring from the current ranked at 3rd and take over Japan to become 2nd in the world by 2013.

For the product structure, the chief consultants of PRC market in IMS Health suggested that, from 2011 onwards, the expiry of patent in global pharmaceutical market will reach the peak period, and may change the trend into generic market. Currently, generic drugs still dominate the market in PRC. The ratio of generic drugs and patent drugs are 75% to 25% in the whole market share. Manufacturing and sales of generic drugs by PRC local pharmaceutical manufactures still occupy a large proportion of the whole market share. The main business model will continue to be leaded by branded drugs.

For the pharmaceutical raw materials market, PRC would possess an irreplaceable advantage from patent drugs that they are reaching peak period of patent expiries, such as benefit to technology, PRC domestic market and local raw materials, etc. As a result, the pharmaceutical markets in the PRC may have new business opportunities in the research and development, sales and manufacturing of pharmaceutical raw materials and intermediates markets. For the manufacturing and production processes of international and distinguishable new pharmaceutical raw materials, companies should be more focus on production methodology, standard of production facilities and quality of products whether meet the international standard, etc., which may be critical for enterprises to obtain market shares.

The reformation of PRC pharmaceutical industry is currently under progress in full swing mode. However, two problems are found; one is difficult to seek for professional medical advises and also expensive medication. The PRC Government is proactively and financially to disseminate medical insurance and expand the medical insurance payment ratio problems, and these are now generally eased. The public hospitals are still under progress of the reformation of "segregation in operation and management" and "separation of prescribing from dispensing" and "drug distribution model". For the pharmaceutical manufacturers, the market policy, especially the changes of products prices, may always be challenges. PRC is currently facing economy transformation from quantity economy to quality economy. As a pharmaceutical manufacturer, innovation and reformation become essential survival factors rather than just a factor of enterprise development.

In order to adapt the characteristics of PRC pharmaceutical market, maintain business moving in a stable and high speed development is required, and the Group thus adopts "Two Fronts" as business model and "Two Acids" as business strategy.

The definition of "Two Fronts" of product structure means apart from developing the core pharmaceutical preparations products, it also requires to strongly capture the development opportunities of pharmaceutical intermediates and pharmaceutical raw materials is also important. For the pharmaceutical preparations segment, the Group treats research and technological innovation as precursor, and it will vigorously develop cerebro-cardiovascular emergency medicines and individual packages of ophthalmic products with preservative-free characteristics. Also, it will actively involve in and support the research and development of anticancer product in order to enhance the proportion of pharmaceutical preparations products in the overall sales revenue and gross margin level. The Group may also maintain and consolidate our leading position in domestic and international markets for the characteristics of some pharmaceutical raw materials and intermediates. The Group will focus on four areas, which are following the international new trend of pharmaceutical raw materials, traditional pharmaceutical raw materials, food additives and fine chemicals. We will construct advanced manufacturing industrial base and maintain products which can provide billions of turnover from one single product. We will focus in research and development in order to obtain core competitiveness with pioneer technology, strong bargaining power and sustainable profitability. More importantly, PRC participate a very important role in the global steroid hormones sector, and only several companies could seize the complexity of production technology. Hence PRC still has a large room for development in this sector. The Group will fully utilize the current significant market position and its bargaining power in the domestic and overseas steroid hormones area for the introduction of advanced technology in biotechnology, access to high-end international certification and improve the profitability of the business in order to lead the Group to enter into the global leading steroid hormones production business at a rapid way.

The definition of "Two Acids" strategy is based on the development of human pharmaceutical and healthcare trends, the Group will focus on research and development, manufacture and sale of amino acid series, and may actively penetrate and develop the downstream preparations, especially in taurine and acetyl cysteine and its intermediates which are current placed as one of the global market leader positions. The Group may focus on research and development, manufacturing and sales of these products, and make use of biotechnology innovation and enhancement of production capacity in order to increase the product quality and efficiency and obtain international certificates. We may also actively expand the pharmaceutical preparations business and surge up the profitability of the Group.

Apart from making investment in research and development, the Group also recruits professional and technical staffs aggressively. The Group will rely on our research and development professionals to closely focus on our existing products and its related medical segment and function to explore new products for the future. The research and development of new products will mainly cooperate with national drug research centers, and also supported by acquisition of other related enterprise assets and product patents with caution and progressiveness. Meanwhile, the Group would strengthen the manufacturing facilities and transformation processes in order to enhance the existing production efficiency and qualities, and aimed to launch at least two new raw material and pharmaceutical preparations products to the market and obtain certificates or production approvals to convey new blood into the Group's product catalog.

For marketing and promotion, as prescription drugs, the Group will continue to mainly reply on our professional medical representatives as core marketing strategy while retailing and the third distribution channel would fill up the remaining part of the whole marketing strategy. The Group may also expand the sales networks in second and third tier cities. Meanwhile, we will progressively launch over-the-counter medicines into retail market, and gradually strengthen our famous brand, such as "Everyday Bright Eyes", to enhance the respectful and trustworthily corporate image of "China Grand" to the public.

The Group will pay closely attention to comprehend the market changes and development direction of both PRC domestic and international markets. We will fully utilize the opportunities of relocating certain subsidiaries, re-structuring product structures to broaden core products production capacities. Base on the existing products, human resources and production facilities, we may handle and deal with the problems occurred in the relocation processes carefully. In the meanwhile, the Group may strengthen the existing enterprise and product competitiveness, maintain current market position, actively explore, capture and develop potential market opportunities; striving for become one of the leading enterprises in the PRC pharmaceutical market in the forthcoming five years, and become one of the fastest growing pharmaceutical companies in Hong Kong capital market.

Financial resources and liquidity

As at 31 December 2011, the Group had current assets of HK$1,087,425,000 (31 December 2010: HK$828,941,000) and current liabilities of HK$1,030,797,000 (31 December 2010: HK$636,507,000). The current ratio was 1.05 at 31 December 2011 as compared with 1.3 at 31 December 2010.

The Group's cash and bank balances as at 31 December 2011 amounted to HK$343,348,000 (31 December 2010: HK$306,999,000), of which 7% were denominated in Hong Kong and United States Dollars and 93% in Renminbi.

As at 31 December 2011, the Group had outstanding bank loans of HK$732,065,000 (31 December 2010: HK$346,717,000). Included in the bank loans, there was a bank loan of approximately HK$95,778,000 which was denominated in US$. All other bank loans are denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.5% to 7.22% (for the year ended 31 December 2010: 0.59% to 5.56%) per annum. These bank loans were pledged by assets of the Group with a net book value of HK$189,047,000 (31 December 2010: HK$98,138,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 115% at 31 December 2011 as compared with 61% at 31 December 2010.

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 2011, the Group employed about 3,700 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.

MATERIAL ACQUISITIONS AND DISPOSALS

Grand Pharm (China) entered into an agreement to acquire 81.0263% equity interest in Wuhan Kernel Bio Tech Co., Limited ("Wuhan Kernel") on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

SUBSEQUENT EVENTS

Pursuant to the acquisition agreement signed on 14 February 2012, China Grand Pharmaceutical (Hong Kong) Limited ("Grand Pharm (Hong Kong)"), an indirectly wholly-owned subsidiary of the Company, has agreed to purchase and an independent third party agreed to sell 2.28% equity interest in Grand Pharm (China) at approximately HK$11.9 million (approximately RMB9.7 million) (the "Grand Pharm (China) Acquisition"). After completion of the Grand Pharm (China) Acquisition, China Grand (Hong Kong) will effectively own 75.95% equity interest in Grand Pharm (China).

Pursuant to the subscription agreement signed on 14 February 2012, the Company agreed to issue 41,240,000 new subscription shares to an independent third party at HK$0.333 per subscription share ("Subscription"). The subscription shares represent, in aggregate, (i) approximately 2.15% of the existing issued share capital of the Company; and (ii) approximately 2.10% of the issued share capital of the Company as enlarged by the Subscription and the allotment and issue of the subscription shares as a result of the Subscription.

CONTINGENT LIABILITIES

The Group's had no significant contingent liabilities at 31 December 2011.

REVIEW OF AUDIT COMMITTEE

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2011, 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 2011.

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 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 May 2012 to Friday, 25 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting of the Company to be held on 25 May 2012. In order to be eligible to attend and vote at the annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 21 May 2012.

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

Hong Kong, 29 March 2012

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