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CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED

遠 大 醫 藥 健 康 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

2012 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board of directors (the ''Board'') of China Grand Pharmaceutical and Healthcare Holdings Limited (the ''Company'') is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2012 of the Company and its subsidiaries (collectively the ''Group''), together with comparative figures for the previous period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**1,059,000**	840,438
Cost of sales		**(722,351)**	(564,082)
Gross profit		**336,649**	276,356
Other revenue		**14,443**	12,062
Distribution costs		**(175,126)**	(134,844)
Administrative expenses		**(117,360)**	(99,504)
Other operating expenses		**(177)**	(171)
Share of results of associates		**211**	295
Finance costs		**(21,980)**	(10,173)
Profit before tax		**36,660**	44,021
Income tax expenses	*5*	**(2,744)**	(5,595)
Profit for the period	*6*	**33,916**	38,426

	Note	Six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Other comprehensive (loss)/income			
Exchange difference on translation of foreign operations		**(7,670)**	13,377
Change in fair value of available-for-sale financial assets, after tax		**2,249**	(1,240)
Total comprehensive (loss)/income for the period		**(5,421)**	12,137
Total comprehensive income for the period		**28,495**	50,563
Profit for the period attributable to:			
- Owners of the Company		**19,467**	23,778
- Non-controlling interests		**14,449**	14,648
		33,916	38,426
Total comprehensive income attributable to:			
- Owners of the Company		**13,597**	34,293
- Non-controlling interests		**14,898**	16,270
		28,495	50,563
Dividend	*7*	**-**	-
Earnings per share	*8*		
- Basic (HK cents)		**1.01 cents**	1.24 cents
- Diluted (HK cents)		**1.01 cents**	1.24 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	**30 June 2012** *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**929,775**	726,068
Prepaid lease payments		**408,753**	365,228
Interests in associates		**9,339**	8,469
Available-for-sale financial assets		**54,242**	51,737
Deposit for acquisition of non-current assets		**18,471**	74,680
Goodwill		**72,037**	72,037
Intangible assets		**536**	649
Deferred tax assets		**3,590**	3,623
Prepayments		**29,075**	23,984
Loan receivables		**-**	17,247
		1,525,818	1,343,722
Current assets			
Inventories		**315,876**	319,163
Trade and other receivables	*9*	**654,625**	341,280
Loan receivable		**24,411**	7,392
Prepaid lease payments – current portion		**9,246**	9,303
Pledged bank deposits		**112,902**	66,939
Bank balances and cash		**595,438**	343,348
		1,712,498	1,087,425
Current liabilities			
Trade and other payables	*10*	**556,780**	300,695
Bank borrowings		**1,124,139**	695,231
Tax payable		**31,138**	34,871
		1,712,057	1,030,797
Net current assets		**441**	56,628
Total assets less current liabilities		**1,526,259**	1,400,350
Non-current liabilities			
Bank borrowings		**164,775**	36,834
Deferred tax liabilities		**83,314**	82,816
Amount due to holding company		**12,280**	12,656
Deferred income		**295,375**	298,125
		555,744	430,431
NET ASSETS		**970,515**	969,919
Capital and reserves			
Share capital		**19,620**	19,208
Reserves		**654,354**	619,970
Equity attributable to owners of the Company		**673,974**	639,178
Non-controlling interests		**296,541**	330,741
TOTAL EQUITY		**970,515**	969,919

Notes:

1. Review of interim results

The interim results have been reviewed by the audit committee.

2. Basis of preparation

This consolidated interim financial results has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("the Listing Rules").

This consolidated interim financial result contains consolidated financial results and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. This consolidated interim financial results and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and methods of computation used in the preparation of this interim report are consistent with those adopted by the Group in the 2011 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2012. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

The financial information relating to the financial year ended 31 December 2011 included in this consolidated interim financial results as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2012.

3. Turnover

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

4. Segment information

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

The Group is engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The Board, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resources allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

5. Income tax expenses

Taxation in the condensed consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
People's republic of China ("PRC")	**2,599**	6,401
Deferred tax	**145**	(806)
	2,744	5,595

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 has no assessable profits for both periods.

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.

6. Profit for the period

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging:		
Staff costs (excluding directors' emoluments) comprises:		
- Wages and salaries	**95,016**	82,028
- Retirement benefits schemes contributions	**14,976**	8,851
	109,992	90,879
Depreciation of property, plant and equipment	**27,760**	22,060
Amortisation of prepaid lease payments	**4,158**	3,019
Amortisation of intangible assets	**177**	171
Total depreciation and amortisation	**32,095**	25,250
Cost of inventories recognised as an expense	**722,351**	564,082
Operating leases rentals in respect of land and buildings	**2,931**	3,302
Loss on disposal of property, plant and equipment	**264**	629
Research and development costs	**27,826**	17,772
Written off of property, plant and equipment	**140**	-

7. Interim dividend

No dividend were paid, declared or proposed during the reporting period. The Board does not recommend the payment of an interim dividend for the period (2011: Nil).

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity holders of the Company of HK$19,467,000 (2011: HK$23,778,000) and on 1,931,677,372 (2011: 1,920,801,000) ordinary shares, being the weighted average ordinary shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2012 (2011: Nil), as there was no dilutive potential ordinary share for the period.

9. Trade and other receivables

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**417,907**	176,796
Bills receivables	**103,810**	94,090
Other receivables, deposits and prepayments	**157,797**	97,653
Less: impairment loss on other receivables	**(24,889)**	(27,259)
	654,625	341,280

The aging analysis of trade receivables is set out below:

Within 90 days	**333,555**	143,110
91-180 days	**66,060**	24,293
181-365 days	**17,198**	11,630
Over 365 days	**21,032**	17,885
	437,845	196,918
Less: accumulated impairment	**(19,938)**	(20,122)
	417,907	176,796

The Group allows a credit period of 30-90 days to its trade customers.

10. Trade and other payables

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Trade payables	**180,364**	100,079
Bills payables	**129,390**	45,081
Accrued charges and other payables	**247,026**	155,535
	556,780	300,695

An ageing analysis of trade payables is as follows:

Within 90 days	**130,556**	72,083
Over 90 days	**49,808**	27,996
	180,364	100,079

11. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2012 (2011: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialized pharmaceutical raw materials and healthcare products. The core products of pharmaceutical intermediates include cerebro-cardiovascular medicines, ophthalmic drops and gel, antipyretic and analgesic medicines, etc. The major products of 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 commits 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 manufacturers of pharmaceutical and healthcare products in the PRC.

During the first half of 2012, the Group acquired approximately 2.28% additional equity interest in Grand Pharm (China) Company Limited ("Grand Pharm (China)"), and thus resulted the equity interest held by the Group in Grand Pharm (China) increased from approximately 73.67% to 75.95%. The Board is optimistic on the future development of Grand Pharm (China), and is of the view that the acquisition of additional equity interest in Grand Pharm (China) may allow the Group to consolidate its control over Grand Pharm (China) and generate good return from its growing business in the future.

Furthermore, the Group also entered a subscription agreement in February 2012 to issue 41,240,000 new shares of the Company ("Share(s)") at HK$0.333 each Share. The issuance of new Shares may not only enlarge the shareholder bases of the Group, the proceeds from this transaction may also support the business development of the Group, including the settlement of the consideration for the acquisition of equity interest of Grand Pharm (China) and for other working capital purpose.

Turnover

For the six months ended 30 June 2012, the Group recorded a turnover of approximately HK$1,059 million, which increased by approximately 26.0% in compare with the same period of last year. The turnover from the core pharmaceutical preparations of the Group such as cerebro-cardiovascular medicines and ophthalmic medicines recorded substantial increment, while the business of other major products such as pharmaceutical intermediates and specialized pharmaceutical raw materials also maintain constant. During the period under review, the average gross profit margin of the Group was approximately 31.8%, while it was approximately 32.9% in the first six months of 2011.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc. During the six months period ended 30 June 2012, the turnover amount of pharmaceutical preparations was approximately RMB274.84 million and was increased by approximately 26.6% in compare with the same period of last year.

- **Cerebro-cardiovascular medicines**

  The cerebro-cardiovascular medicine is the core product and the business growth engine of the Group. During the six months period ended 30 June 2012, the Group has expanded the sales network in the second-tier cities of PRC, and thus the turnover of the cerebro-cardiovascular medicines of the Group recorded approximately RMB112.75 million and was increased by approximately 89% in compare with the same period of last year. The Tirofiban, an anti-platelet drug, recorded a turnover of approximately RMB41.54 million and was increased by approximately 28.0% compared with the same period of last year. Other cerebro-cardiovascular medicines such as Noradrealine Bitartrate also had approximately RMB30.13 million turnover amount, while it was approximately RMB5.05 million in the same period of 2011.

- **Ophthalmic medicines and other pharmaceutical preparations**

  The Group is one of the ophthalmic medicine manufacturers in the PRC with the most advance technology and the largest production scale, and our antibacterial products also played as leading roles in the PRC pharmaceutical preparations market. During the current review period, the Group has explored a new sales channel for an ophthalmic medicine Polyvinyl Alcohol in Shanghai and also focus on the promotion of anti-infectious ophthalmic medicines which contains antibiotics, such as Levofloxacine Hydrochloride. As a result, the turnover amount of ophthalmic medicines increased by approximately 30.6% to approximately RMB66.41 million in compare with the six months period ended 30 June 2011. During the first six months of this year, the antibiotics products such as Metronidazole also recorded approximately RMB23.07 million turnover amount, which was increased by approximately RMB2.26 million in compare with the same period of last year.

Pharmaceutical intermediates

The pharmaceutical intermediates are also major products of the Group, which include pharmaceuticals raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acids products. For the six months period ended 30 June 2012, the turnover amount of pharmaceutical intermediates was approximately RMB289.23 million, while it was approximately RMB268.8 million in the same period of 2011.

- **Pharmaceutical raw materials**

  During the six months period ended 30 June 2012, the turnover amount of pharmaceuticals raw materials was approximately RMB160.9 million which is similar as those in the same period of last year. The turnover amount of Chloramphenicol, a raw material of antibiotics which the Group commenced the development since 2011, was approximately RMB36.49 million. It was approximately 18.1% more than the full year amount in 2011, and it is expected to have continuous contribution to the Group.

- **Amino acids products**

  The Group is one of the largest manufacturers of amino acids products in the PRC. Other than the Acetyl Cysteine series, the Group is also developing other amino acids products such as L-cysteine HCI Monohydrate. For the six months period ended 30 June 2012, the turnover amount of the amino acids products of the Group was approximately RMB128.34 million, which was increased by approximately 18.0% in compare with the same period of last year.

Steroid hormones and its intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. Certain products have passed the quality assurance test of Europe EDQM and received Europe COS certification. In order to cope with the growing demand of customers, the Group is constructing a new plant in Jiangsu. It is expected to commence production in this year, and it will enhance the production capacity and technology for steroid hormones raw materials of the Group. During the current review period, the turnover amount of steroid hormones of the Group was approximately RMB99.76 million and was increased by approximately 8.3% in compare with the same period of last year.

- **Glucocorticoid**

  The Glucocorticoid products of the Group include Betamethasone and Dexamethasone, which are the raw materials for anti-inflammatory and anti-allergic medicines. The Betamethasone is currently staying at the leading position in the PRC. The turnover amount of these 2 Glucocorticoid products during this six months period was approximately RMB82.62 million, which was increased by approximately 6.2% in compare with the same period of last year.

Healthcare and chemical products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate, which are well-known brands in the market and are well recongized by customers. During the first six months of 2012, the turnover amount of the relevant products was approximately RMB138.58 million, which was increased by approximately 16.7% in compare with the same period of last year.

- **Taurine**

  The Group is one of the largest exporters of Taurine in the PRC. Several production technology enhancement projects were completed in 2011 and thus the product quality and production efficiency was enhanced. As a result the turnover amount during the period was approximately RMB43.74 million and was approximately RMB11.13 million more than the same period of last year.

Distribution costs and administrative expenses

Distribution costs and administrative expenses of this period was approximately HK$175.13 million and HK$117.36 million respectively, while it was approximately HK$134.84 million and HK$99.50 million respectively in the same period of last year. The increment of these two expenses was mainly due to the turnover amount increased by approximately 26.0% in this period. It is also contributed by the business restructuring and expansion of production scale.

Finance costs

For the six months period ended 30 June 2012, the finance costs of the Group were approximately HK$21.98 million, while they were approximately HK$10.17 million during the six months period ended 30 June 2011. The increment was mainly due to the addition of short-term loans which are financing the short-term operation expenses during the expansion of production capacities and reallocation of production plants.

Outlook and Future Prospects

According to the 12th Five-Year Plan of the PRC, there will be the situation of the pharmaceutical industry in the future that there are five enterprises with sales revenue of RMB50 billion each, and 100 enterprises with sales revenue of more than RMB10 billion each, which account for 50% or above market share in total.

The Group aims to develop into the top 100 pharmaceutical conglomerates that are most characterized by the products of niche market, and to become one of the fastest growing company among the pharmaceutical sector in Hong Kong capital market.

As a latecomer in the pharmaceutical market in the PRC, merger and acquisition are one of the best ways to form core assets and have a certain speaking right in the market within a short period of time. In particular, since there are currently 4,678 manufacturers of raw materials and preparations (according to the statistics of the State Food and Drug Administration in 2010) in the PRC, "scale" is one of the necessary hardware to build its status in the industry. In addition to continuing to improve capacity and sales scale, the Group also achieved many significant results in such respects as exploiting inherent growth potential of the entity, improving product quality and obtaining international certification for their core products. Furthermore, the Group will create opportunities for the development, production capacity expansion and marketing for more core products by leveraging on the great opportunity of relocation and equipment replacement.

For the purpose of our main businesses, currently, approximately 69% of the sales was derived from pharmaceutical intermediates and raw materials, and approximately 31% from the sales of ophthalmic medicines and cerebro-cardiovascular medicines. In terms of gross profit, 60% of them derived from preparations products and the remaining 40% from other products. These percentages will change significantly as the relocation, expansion and construction of production bases will be completed in the late of 2013, which may not only affect the proportion of revenue from preparations and intermediates raw materials, but also may facilitate the quality and production scale of core intermediates raw materials to meet the leading level in the world. In the pharmaceutical preparation sector, the Group has been focused on some special market sectors, such as the product echelon research & development, production and sales in the areas such as ophthalmology (ENT) and cerebro-cardiovascular emergency medicines have achieved satisfactory results. In addition, as the new plant in Jiangsu of Zhejiang Xianju Xianle Pharmaceutical Company Limited, a subsidiary of the Group, will be completed and put into production, the Group will become a vital and powerful player engaged in steroid hormones product series in the global market in the future, and will also engage in the research and development of high-end products of such series and become one of the enterprises having state-of-the-art core technologies, thus becoming the strong performer in terms of technology and product quality in this field in the global market.

Moreover, the Group has already had an insight into the directions of the 12th Five-Year Plan in relation to biological technology advancement issued by the Ministry of Science and Technology of the PRC, and has been committed to the study of biological technology together with the advancement and production of existing product technologies focusing on compound technology in the areas such as asset merger and acquisition and product echelon. It is believed that we will certainly make satisfying achievements in the science and technology soon, in anticipation of creating a great opportunity for investors to explore and gain better-than-expected investment return.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Employees and remuneration Policy

As at 30 June 2012, the Group employed about 4,000 staff and workers in Hong Kong and the PRC (31 December 2011: about 3,700). 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.

Subsequent events

On 3 July 2012, all shareholders of Grand Pharm (China) (including China Grand Pharmaceutical (Hong Kong) Limited, a wholly-owned subsidiary of the Company (the "China Grand (Hong Kong)") of Grand Pharm (China) passed a written resolution, in which it was agreed to increase the registered capital of the Grand Pharm (China) from RMB185,000,000 to RMB498,000,000. China Grand (Hong Kong) had conditionally agreed to contribute, or to procure its wholly-owned subsidiary to contribute, the entire additional capital into the Grand Pharm (China) at a consideration of approximately RMB359,950,000 (the "Capital Injection"). Outwit Investments Limited, the substantial shareholder of the Company, has approved the Capital Injection in writing. The circular in related to the Capital Injection will be despatched to the shareholders of the Company on or before 14 September 2012.

Model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of the Company's directors, all directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the six months ended 30 June 2012.

Code of corporate governance practices

The Company has complied with all of the code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2012, except the following:

Code provision A.1.8 of the CG Code requires that the Company should arrange appropriate insurance cover in respect of legal action against its directors. Up to the date of this announcement, the Company has not arranged to purchase any insurance which covers in respect of legal action against the directors of the Company. While the Company is committed to achieving high standards of corporate governance and to complying with the CG Code, the Company decided to delay the compliance with such code provision as the Board is currently considering quotations from different underwriters and will select the insurance with the most cost-efficient and will arrange for appropriate insurance coverage as soon as possible.

Audit committee

The Company has established the audit committee for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. Currently, the audit committee is chaired by independent non-executive director Ms So Tosi Wan, Winnie and other members include the two independent non-executive directors Mr Lo Kai Lawrence and Dr. Pei Geng.

The Group's unaudited interim financial statements for the six months ended 30 June 2012 has been reviewed by the audit committee.

Remuneration committee

The Company has established the remuneration committee to consider the remuneration of all directors and senior management of the Company. Currently, the remuneration committee is chaired by independent non-executive director Ms So Tosi Wan, Winnie and other members include the executive director Mr Liu Chengwei and the independent non-executive director Mr Lo Kai Lawrence.

Nomination committee

The Company has established the nomination committee to assist the Board in the overall management of the director nomination practices of the Company. Currently, the nomination committee is chaired by independent non-executive director Ms So Tosi Wan, Winnie and other members include the executive director Dr Shao Yan and the independent non-executive director Mr Lo Kai Lawrence.

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

Hong Kong, 30 August 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.

* *For identification purpose only.*