THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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)

MAJOR AND CONNECTED TRANSACTION

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

* *For identification purpose only*

26 March 2013

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition by the Group of the Sale Interest subject to and upon the terms and conditions of the Share Transfer Agreement
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (not being Saturdays, Sundays or public holidays) on which licensed banks are generally open for business in the PRC throughout their normal business hours
"China Grand (Hong Kong)"	遠大醫藥(香港)有限公司 (China Grand Pharmaceutical (Hong Kong) Limited), a company incorporated in Hong Kong with limited liability, being an indirect wholly-owned subsidiary of the Company
"Company"	China Grand Pharmaceutical and Healthcare Holdings Limited (遠大醫藥健康控股有限公司*), a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Interest in accordance with the terms and conditions of the Share Transfer Agreement
"Completion Date"	the date of Completion
"connected person"	has the meaning ascribed to this term under the Listing Rules
"controlling shareholder(s)"	has the meaning as ascribed thereto under the Listing Rules
"Consideration"	the consideration of approximately RMB134.9 million (equivalent to approximately HK$167.6 million) to be satisfied by the Group for the Acquisition
"Directors"	directors of the Company
"Grand Pharm (China)"	遠大醫藥(中國)有限公司 (Grand Pharmaceutical (China) Limited), a company established in the PRC with limited liability, being an indirect non-wholly owned subsidiary of the Company
"Grand Pharm (China) Group"	Grand Pharm (China) and its subsidiaries

"Group"	the Company and its subsidiaries
"Guangdong Securities" or "Independent Financial Adviser"	Guangdong Securities Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Guarantee Payment"	an amount of RMB40.5 million (equivalent to approximately HK$50.31 million) paid by the Group to WGUAEE as 交易保證金 (the guarantee payment for the Tender#), which applied towards settling part of the Consideration
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent board committee comprising all the independent non-executive Directors formed to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition
"Independent Shareholders"	Shareholders which are not required to abstain from voting at the general meeting to approve the Acquisition
"Latest Practicable Date"	21 March 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mandate"	the authority granted to the Directors by the Shareholders to engage in the Acquisition on 29 November 2012
"PRC"	the People's Republic of China but excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan
"Outwit"	Outwit Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is the controlling shareholder of the Company holding approximately 62.60% of the total issued Shares as at the Latest Practicable Date
"Sale Interest"	20.26% of the entire equity interest in the registered and paid up capital of Grand Pharm (China)

"SASAC"	State-Owned Assets Supervision and Administration Commission, the PRC
"Share Transfer Agreement"	the share transfer agreement dated 17 December 2012 and entered into among 武漢和勤艾管理諮詢有限公司 and Wuhan State-Owned Assets Management Limited in relation to the sale and purchase of the Sale Interest
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	holders of the Shares
"Shares"	ordinary shares of HK$0.01 each in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tender"	掛牌出讓 (the public tender#) for sale of the Sale Interest held by Wuhan State-Owned Assets Management Limited for the period from 5 November 2012 to 30 November 2012
"WGUAEE"	武漢光谷聯合產權交易所 (Wuhan Guanggu United Assets and Equity Exchange#)
"WHGZW"	武漢市人民政府國有資產管理監管理委員會 (State-Owned Assets Supervision and Administration Commission of Wuhan Municipal People's Government#)
"Wuhan State-Owned Assets Management Limited"	武漢國有資產經營公司 (Wuhan State-Owned Assets Management Limited#), which is wholly owned by WHGZW
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

\# *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

For illustration purposes, figures in RMB in this circular have been translated into HK$ at the exchange rate of RMB0.805 = HK$1. Such conversion shall not be construed as a representation that amounts in RMB were or may have been converted into HK$ using such exchange rate or any other exchange rate or at all.

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)

Executive Directors:
Mr. Liu Chengwei *(Chairman)*
Mr. Hu Bo *(Deputy Chairman)*
Dr. Shao Yan *(Chief Executive Officer)*
Dr. Zhang Ji

Independent non-executive Directors:
Ms. So Tosi Wan, Winnie
Mr. Lo Kai Lawrence
Dr. Pei Geng

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3302, The Centre
99 Queen's Road Central
Hong Kong

26 March 2013

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the announcements of the Company dated 29 November 2012 and 17 December 2012 in relation to the results of the Tender and the Acquisition, in which the Board announced that on 29 November 2012, the Group has submitted application together with the Guarantee Payment to WGUAEE for participating in the Tender after the Mandate was granted by a written approval from Outwit on the same day and such application had been validly tendered and not been withdrawn.

On 17 December 2012, the Group was notified that it has placed the highest auction bid amongst the other qualified intended purchasers at a final price of approximately RMB134.9 million (equivalent to approximately HK$167.6 million) and is eligible to enter into the Share Transfer Agreement with Wuhan State-Owned Assets Management Limited for the Sale Interest at a consideration of approximately RMB134.9 million (equivalent to approximately HK$167.6 million).

As one of the relevant applicable percentage ratio calculated in accordance with the Listing Rules is more than 25% but less than 100%, the Acquisition constitutes a major transaction on the part of the Company under the Listing Rules. Further, as Wuhan State-Owned Assets Management Limited is interested in 20.26% of the entire issued share capital of Grand Pharm (China), Wuhan State-Owned Assets Management Limited is the connected person of the Company. Therefore, the Acquisition constitutes a non-exempted connected transaction on the part of the Company under the Listing Rules and is subject to reporting, announcement and the Independent Shareholders' approval requirements.

The purpose of this circular is to provide you with further information regarding the Acquisition and the transactions contemplated thereunder.

THE SHARE TRANSFER AGREEMENT

Date: 17 December 2012 (after trading hours)

Parties:

(1) 武漢和勤艾管理諮詢有限公司 (Wuhan Heqinlove Consultation Management Co., Ltd.#), a wholly-owned subsidiary of the Company; and

(2) Wuhan State-Owned Assets Management Limited.

Wuhan State-Owned Assets Management Limited is principally engaged in investment holding and owned by WHGZW.

As WHGZW is interested in 20.26% of the entire issued share capital of Grand Pharm (China) through Wuhan State-Owned Assets Management Limited, each of WHGZW and Wuhan State-Owned Assets Management Limited is a connected person of the Company.

武漢和勤艾管理諮詢有限公司 is an indirect wholly owned subsidiary of the Company established in the PRC and is principally engaged in investment holding.

Asset to be acquired

Pursuant to the Share Transfer Agreement, Wuhan State-Owned Assets Management Limited has agreed to sell and the Group has agreed to acquire the Sale Interest, representing 20.26% of the issued share capital of Grand Pharm (China) as at the Latest Practicable Date.

Consideration

The Consideration for the Sale Interest is approximately RMB134.9 million (equivalent to approximately HK$167.6 million) and were satisfied by the Group in the following manner:

(a) approximately RMB40.5 million (equivalent to approximately HK$50.3 million), as the Guarantee Payment, was satisfied by the Group at the date of submitting the application for participating in the Tender on 29 November 2012 after the Mandate was granted by a written approval from Outwit on the same day; and

(b) the remaining balance of approximately RMB94.4 million (equivalent to approximately HK$117.3 million) was paid by the Group to Wuhan State-Owned Assets Management Limited on the fifth Business Days after the date of the Share Transfer Agreement.

The Consideration was determined with reference to a valuation report dated 30 June 2012 prepared by 武漢華晟正浩資產評估有限公司 (Wuhan Hua Sheng Zheng Hao Assets Appraisal Limited#) in which the total assets value, the total liabilities, the net assets value and the corresponding value of Sale Interest of Grand Pharm (China) was assessed to be approximately RMB2,048.7 million, RMB1,308.8 million, RMB739.9 million and RMB149.9 million respectively. The valuation was prepared based on cost method and does not constitute a profit forecast under Rule 14.61 of the Listing Rules. The valuation was prepared by the qualified valuer engaged by the Wuhan State-Owned Assets Management Limited, who is independent to both Wuhan State-Owned Assets Management Limited and the Group. The responsibility of the Grand Pharm (China) Group is only to provide the information to the valuer in related to the valuation.

The Directors consider that the terms and conditions of the Acquisition to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Consideration was paid by the Group by its internal resources.

Conditions

Completion shall be conditional upon:

(a) Wuhan State-Owned Assets Management Limited having completed the Tender procedures in relation to the Share Transfer Agreement and the transactions contemplated thereunder in accordance with the relevant requirements of laws, regulations and policies; and

(b) 武漢和勤艾管理諮詢有限公司 having obtained all necessary approvals and the authority for or in respect of the transactions contemplated by the Share Transfer Agreement in accordance with the laws and its articles of association.

Completion

Pursuant to the Share Transfer Agreement, the 產權交易憑證 (asset transfer certificate#) will be issued by the WGUAEE and Wuhan State-Owned Assets Management Limited shall convene a general meeting for approving resolutions in relation to the transfer of Sale Interest and in particular, to amend its articles of association to that effect. It shall also procure Grand Pharm (China) to proceed with completing the necessary registration procedures for the change in shareholders with the relevant authorities in the PRC and 武漢和勤艾管理諮詢有限公司 shall assist and co-operate with Wuhan State-Owned Assets Management Limited in this regard.

Completion has been taken place after the completion date of change in shareholders at Wuhan Administrator for Industry & Commerce on 28 December 2012.

Undertakings given by the Group

The Group has undertaken that it will not transfer any Sale Interest for three years from the Completion Date.

INFORMATION ON THE GROUP AND GRAND PHARM (CHINA)

The Group is principally engaged in business of manufacture and sales of pharmaceutical products in the PRC. Grand Pharm (China) is a company established in the PRC with limited liability. The Grand Pharm (China) Group is principally engaged in the business of development, production and sales of pharmaceutical products and raw material pharmaceuticals.

FINANCIAL INFORMATION OF GRAND PHARM (CHINA)

The following are the audited consolidated turnover and profit before and after taxation of Grand Pharm (China) prepared in accordance with the PRC GAAP for each of the two years ended 31 December 2011:

	For the year ended 31 December 2011 *(RMB'000)*	**For the year ended 31 December 2010** *(RMB'000)*
Turnover	1,209,089	932,348
Profit before taxation	75,265	68,463
Profit after taxation	58,325	58,220
Net assets value	501,595	469,921

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GRAND PHARM (CHINA) GROUP

Management Discussion and Analysis of the Results of Grand Pharm (China)

(i) For the year ended 31 December 2009

Financial Review

For the year ended 31 December 2009, the total turnover of the Grand Pharm (China) Group was approximately HK$545.4 million, and the average gross profit margin was approximately 45.9%. These results were mainly contributed from the growing sales of pharmaceutical preparations, which generally recorded a higher gross profit margin.

The profit after tax of the Grand Pharm (China) Group was approximately HK$48.7 million in 2009.

Business Review and Prospects

In 2009, the Grand Pharm (China) Group mainly focused on the manufacturing and sale of pharmaceutical preparations and raw material pharmaceuticals. The key products of pharmaceutical preparations covered the cardiovascular, ophthalmic and antibiotic areas. Tirofiban, a key antiplatelet drug for the treatment of cardiovascular disease, recorded a substantial increase of sales amount during the year and dominated the PRC hospital market. Other key products such as Pirenoxine sodium eye drop and Enoxacin gluconate also contributed to the improvement of the overall results.

For the raw material pharmaceuticals, the Grand Pharm (China) Group is one of the largest manufacturers of Analgin and Metronidazole in the PRC. Two other products, namely Adrenaline bitartrate and Noradrenaline bitartrate, were certified by the Food and Drug Administration of USA and were exported to the USA market.

The Grand Pharm (China) Group will fully capitalize on the opportunities arising from the PRC pharmaceutical and public health systems reform by expanding its product range and market share, enhancing its research and development capability and improving its sales network.

There were no business segment information presented as all the turnover and operating result of the Grand Pharm (China) Group were generated from the manufacture and sales of pharmaceutical products. The geographical segments of the Grand Pharm (China) Group were classified according to the location of customers. The turnover generated from the PRC was approximately HK$422.3 million, while the turnover generated from other areas such as America, Europe, etc. was approximately HK$123.2 million.

Financial Resources and Liquidity

As at 31 December 2009, the Grand Pharm (China) Group had current assets of approximately HK$203.7 million and current liabilities of HK$212.5 million. The current ratio was 0.96 at 31 December 2009.

The Grand Pharm (China) Group's cash and bank balances as at 31 December 2009 amounted to approximately HK$60.2 million.

As at 31 December 2009, the Grand Pharm (China) Group had outstanding bank loans of approximately HK$92.2 million, all of which were in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 5.31% to 5.58% per annum. These bank loans were pledged by assets of the Grand Pharm (China) Group with a net book value of approximately HK$205.7 million. The gearing ratio of the Grand Pharm (China) Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 36% at 31 December 2009.

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

The Grand Pharm (China) Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. It is believed that the Grand Pharm (China) Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Grand Pharm (China) Group adopted a conservative treasury policy with most of the bank deposits being kept in RMB to minimize exposure to foreign exchange risks. As at 31 December 2009, the Grand Pharm (China) Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Significant Investments

There was no significant investment during the year.

Material Acquisitions and Disposals

There was no material acquisitions and disposals during the year.

Future Plans for Material Investments

The Grand Pharm (China) Group had any authorized but not provided for capital expenditure commitment of approximately HK$0.8 million in respect of acquisition of non-current assets as at 31 December 2009.

Employees and Remuneration Policy

As at 31 December 2009, the Grand Pharm (China) Group employed about 2,400 staff and workers in the PRC. The Grand Pharm (China) 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.

Contingent Liabilities

Grand Pharm (China) had no significant contingent liabilities as at 31 December 2009.

(ii) *For the year ended 31 December 2010*

Financial Review

For the year ended 31 December 2010, the total turnover of the Grand Pharm (China) Group was approximately HK$1,014.6 million, which was increased by approximately 86.0% in compare with the year ended 31 December 2009. In 2010, the average gross profit margin of the Grand Pharm (China) Group was approximately 36.2%, while it was approximately 45.9% in 2009. The substantial of the turnover was mainly attributable to the increase in turnover of Grand Pharm (China) and the inclusion of turnover generated from the newly acquired subsidiaries during the year.

In 2010, certain newly acquired subsidiaries were consolidated into the Group and provided contribution to the overall results of the Group. Their main products including pharmaceutical intermediates, healthcare and chemical products generally recorded a relatively lower gross profit margin (approximately 15%~20%) when compared to the gross profit margin (approximately 40%~50%) which generated from the Group's pharmaceutical preparations products in 2009. As a result, even the turnover amount of the Group was recorded a significant increment in 2010, the average gross profit margin was decreased.

The profit after tax of the Grand Pharm (China) Group was approximately HK$194.2 million in 2010, while it was approximately HK$48.7 million in 2009. The increment was mainly attributable to the relocation commencement fee recorded during the year and the increase in profit contributions from its subsidiaries.

Business Review and Prospects

During the year under review, the Grand Pharm (China) Group is mainly focus on the manufacturing and sale of pharmaceutical preparations and raw material pharmaceuticals, and it also committed to extend its product bases. The turnover of the Grand Pharm (China) Group was mainly contributed from the pharmaceutical preparations, which mainly focus on cardiovascular, ophthalmic and antibiotic areas. The Tirofiban, a key product in the cardiovascular area, has recorded an approximately 10% growth in turnover, and it is expected to maintain constant since it has been included in the Basic Medical Insurance National Drug Reimbursement List in December 2009. It also commenced to manufacture high-end ophthalmic medicines after the acquisition of a new subsidiary.

Another major kind of product of the Grand Pharm (China) Group is raw material pharmaceuticals. It is still one of the largest manufacturers of Analgin and Metronidazole in the PRC, while the sales of amino acid products also commenced contribution to the overall turnover of the Grand Pharm (China) Group.

In 2010, Grand Pharm (China) has completed several acquisitions and group restructuring, which included:

(1) In February 2010, an associate of Wuhan Grand Hoyo Company Limited ("Wuhan Hoyo") amended its articles of association which resulted that Grand Pharm (China) shall have the right to nominate 4 out of 7 directors of Wuhan Hoyo. On 24 February 2010, an additional director was nominated by Wuhan Grand and appointed to the board of Wuhan Hoyo. As a result, Grand Pharm (China) has controlled the majority of the directors of Wuhan Hoyo and it became a subsidiary of Grand Pharm (China) since March 2010. Furthermore, in December 2010, Grand Pharm (China) entered into a share transfer agreement to acquire 6.4% equity interests in Wuhan Hoyo at a total consideration of approximately RMB5.4 million. The equity interest held in Wuhan Hoyo thus increased from 56% to 62.4%;

(2) In March 2010, Grand Pharm (China) entered into an agreement with 33 shareholders of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited) ("Hubei Fuchi") to acquire 75.47% equity interests in Hubei Fuchi at a consideration of approximately RMB117 million. The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the Grand Pharm (China) Group starting from June 2010. In December 2010, Grand Pharm (China) completed the acquisition of a further 6.95% equity interests in Hubei Fuchi and the equity interest held thus increased to 82.42%;

(3) In March 2010, Grand Pharm (China) entered into another agreement to acquire the entire equity interests in Hubei Grand EBE Pharmaceutical Company Limited ("Hubei Ruizhu") at a total consideration of approximately RMB110 million. The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the Grand Pharm (China) Group starting from May 2010.

In November 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 Centre") in relation to Grand Pharm (China)'s agreement to surrender 3 pieces of industrial use land of an aggregate area of approximately 197,973 square meters situated at No. 5 Gutian Road and No. 8 Jiefang Road, Qiaokou District, Wuhan, Hubei Province (the "Wuhan Property") which is owned by Grand Pharm (China), together with buildings, structures and attachments (including immovable plant and equipment) located thereon and thereunder to the Land Reserve Centre and to relocate its production facilities situated thereat to other locations, and the Land Reserve Centre's agreement to compensate Grand Pharm (China) for the disposal. The compensation amounts to RMB855 million. The Wuhan Property is currently used as the production facilities of Grand Pharm (China) for the production of pharmaceutical preparations and raw material pharmaceuticals.

With the completion of a series of acquisition and group restructuring, the Grand Pharm (China) Group will continue to focus on the three main business lines, namely (i) ophthalmic medicines, (ii) cardiovascular drugs and other preparations and (iii) health products & raw materials pharmaceuticals. The Grand Pharm (China) Group plans to upgrade its production facilities so as to increase its production capacity and market share, continue to invest in research and development in order to maintain a full and sustainable new product pipeline and look for suitable acquisition target.

The Grand Pharm (China) Group will fully capitalise on the opportunities arising from the PRC pharmaceutical and public health systems reform by expanding its product range and market share, enhancing its research and development capability and improving its sales network.

There were no business segment information presented as all the turnover and operating result of the Grand Pharm (China) Group were generated from the manufacture and sales of pharmaceutical products. The geographical segments of the Grand Pharm (China) Group were classified according to the location of customers. The turnover generated from the PRC was approximately HK$866.3 million, while the turnover generated from other areas such as America, Europe, etc. was approximately HK$148.3 million.

Financial Resources and Liquidity

As at 31 December 2010, the Grand Pharm (China) Group had current assets of approximately HK$706.2 million (31 December 2009: HK$203.7 million) and current liabilities of HK$546.2 million (31 December 2009: HK$212.5 million). The current ratio was 1.29 at 31 December 2010 as compared with 0.96 at 31 December 2009.

The Grand Pharm (China) Group's cash and bank balances as at 31 December 2010 amounted to approximately HK$286.9 million (31 December 2009: approximately HK$60.2 million).

As at 31 December 2010, the Grand Pharm (China) Group had outstanding bank loans of approximately HK$310.6 million (31 December 2009: approximately HK$92.2 million). All bank loans are denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.56% to 5.56% (for the year ended 31 December 2009: 5.31% to 5.58%) per annum. These bank loans were pledged by assets of the Grand Pharm (China) Group with a net book value of approximately HK$67.9 million (31 December 2009: approximately HK$205.7 million). The gearing ratio of the Grand Pharm (China) Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 54% at 31 December 2010 as compared with approximately 36% at 31 December 2009.

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

The Grand Pharm (China) Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. It is believed that the Grand Pharm (China) Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Grand Pharm (China) Group adopted a conservative treasury policy with most of the bank deposits being kept in RMB to minimize exposure to foreign exchange risks. As at 31 December 2010, the Grand Pharm (China) Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Significant Investments

The was no significant investment during the year.

Material Acquisitions and Disposals

There are three acquisition took place during 2010:

In March 2010, Grand Pharm (China) entered into an agreement with 33 shareholders of Hubei Fuchi to acquire 75.47% equity interests in Hubei Fuchi at a consideration of approximately RMB117 million. The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the Grand Pharm (China) Group starting from June 2010. In December 2010, Grand Pharm (China) completed the acquisition of a further 6.95% equity interests in Hubei Fuchi and the equity interest held thus increased to 82.42%;

In March 2010, Grand Pharm (China) entered into another agreement to acquire the entire equity interests in Hubei Ruizhu at a total consideration of approximately RMB110 million. The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the Grand Pharm (China) Group starting from May 2010;

In December 2010, Grand Pharm (China) entered into a share transfer agreement to acquire 6.4% equity interests in Wuhan Hoyo at a total consideration of approximately RMB5.4 million. The equity interest held in Wuhan Hoyo thus increased from 56% to 62.4%.

Future Plans for Material Investments

The Grand Pharm (China) Group had any authorized but not provided for capital expenditure commitment of approximately HK$33.1 million in respect of acquisition of non-current assets as at 31 December 2010.

Employees and Remuneration Policy

As at 31 December 2010, the Grand Pharm (China) Group employed about 3,300 staff and workers in the PRC. The Grand Pharm (China) 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.

Contingent Liabilities

Grand Pharm (China) had no significant contingent liabilities as at 31 December 2010.

(iii) For the year ended 31 December 2011

Financial Review

For the year ended 31 December 2011, the total turnover of the Grand Pharm (China) Group was approximately HK$1,423.6 million, which was increased by approximately 40.3% in compare with the year ended 31 December 2010. In 2011, the average gross profit margin of the Grand Pharm (China) Group was approximately 32.6%, while it was approximately 36.2% in 2010. The change of average gross profit margin was mainly due to the turnover of pharmaceutical raw materials and intermediates recorded a substantial increase, while these products generally provided a relatively lower gross profit margin in compare with pharmaceutical preparations.

The profit after tax of the Grand Pharm (China) Group was approximately HK$90.4 million in 2011, while it was approximately HK$194.2million in 2010. The difference was mainly due to the one-off relocation compensation recorded in 2010.

Business Review and Prospects

In 2010, the Grand Pharm (China) Group acquired equity interests of two new subsidiaries, which were Hubei Ruizhu, which is principally engaged in sales and manufacturing of ophthalmic medicines; and Hubei Fuchi, which is principally engaged in sales and manufacturing of agrochemical and fine chemicals. These two new subsidiaries have also brought financial contribution to the Grand Pharm (China) Group and developed a strong synergy effect among the products and technology, which in turn help the Grand Pharm (China) Group to enhance its products quality, turnover and profits.

The pharmaceutical preparations are the major sources of profit. Core products of pharmaceutical preparations include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc. The cerebro-cardiovascular medicines of the Grand Pharm (China) Group is one of the dominate medicines in the market, and the turnover of these products recorded an approximately 14% increment in compare with the previous year. The Grand Pharm (China) Group is also one of the ophthalmic medicine manufacturers with advanced technology, wide product range and the largest production scale in the PRC. Apart from the market leader in the PRC "Bai Nei Ting", the Group also put effort on exploring other ophthalmic medicines, such as antivisual fatigue "Polyvinyl Alcohol Eye Drops" and anti-infectious "Levofloxacin Hydrochloride"eye gel.

The Grand Pharm (China) Group also manufactures pharmaceutical intermediates, such as "Analgin", "Metronidazole", "Chloramphenicol" and other amino acids intermediates, which is one of the largest manufacturers of these products in the PRC. Wuhan Hoyo, a non-wholly owned subsidiary of the Grand Pharm (China), is the manufacturer of the amino acids intermediates. Wuhan Hoyo focuses on 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 became one of the largest exporters of "Acetyl Cysteine" in the PRC.

Since the completion of the acquisition of Hubei Fuchi in 2010, the Grand Pharm (China) Group also engaged in the production and sales of healthcare products, chemical medicines and agrochemicals including "Taurine", "Calcium Superphosphate" and "Dimethyl Sulfate", etc. The Grand Pharm (China) Group is one of the market leaders of, and also one of the largest exporters of "Taurine" in the PRC. We 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 order to adapt the characteristics of the PRC pharmaceutical market, maintaining business moving in a stable and high speed development is required. The Grand Pharm (China) Group will further develop the core pharmaceutical preparations products and capture the development opportunities of pharmaceutical intermediates and pharmaceutical raw materials. It will also 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.

There was no business segment information presented as all the turnover and operating result of the Grand Pharm (China) Group were generated from the manufacture and sales of pharmaceutical products. The geographical segments of the Grand Pharm (China) Group were classified according to the location of customers. The turnover generated from the PRC was approximately HK$1,109.2 million, while the turnover generated from other areas such as America, Europe, etc. was approximately HK$314.2 million.

Financial Resources and Liquidity

As at 31 December 2011, the Grand Pharm (China) Group had current assets of approximately HK$935.7 million (31 December 2010: HK$706.2 million) and current liabilities of HK$875.2 million (31 December 2010: HK$546.2 million). The current ratio was 1.07 at 31 December 2011 as compared with 1.29 at 31 December 2010.

The Grand Pharm (China) Group's cash and bank balances as at 31 December 2011 amounted to approximately HK$301.5 million (31 December 2010: approximately HK$286.9 million).

As at 31 December 2011, the Grand Pharm (China) Group had outstanding bank loans of approximately HK$611.5 million (31 December 2010: approximately HK$310.6 million). Included in the bank loans, there was a bank loan of approximately HK$73.7 million which was denominated in US$. All other bank loans are denominated in RMB and granted by banks in the PRC, Japan and Hong Kong. The interest rates charged by banks ranged from 2.5% to 7.22% (for the year ended 31 December 2010: 2.56% to 5.56%) per annum. These bank loans were pledged by assets of the Grand Pharm (China) Group with a net book value of approximately HK$164.0 million (31 December 2010: approximately HK$67.9 million). The gearing ratio of the Grand Pharm (China) Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 91% at 31 December 2011 as compared with approximately 54% at 31 December 2010.

The purposes of borrowings are mainly used for financing short-term working capital and addition of fixed assets. Given that the turnover of the Grand Pharm (China) Group recorded a double-digit increment during the reviewing periods and the construction of new plants since 2011, the Grand Pharm (China) Group has made more new bank loans for short-term financing purposes.

In according to the agreement with the Wuhan government, the Grand Pharm (China) Group will receive compensation in the sum of RMB342 million in 2012 and 2013, and a further sum of RMB171 million after completion of the relocation of old plants (which is expected to take place in 2013), thus the Grand Pharm (China) Group is of the view that it will not have liquidity issues.

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

The Grand Pharm (China) Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. It is believed that the Grand Pharm (China) Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Grand Pharm (China) Group adopted a conservative treasury policy with most of the bank deposits being kept in RMB to minimize exposure to foreign exchange risks. As at 31 December 2011, the Grand Pharm (China) Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Significant Investments

There was no significant investment during the year.

Material Acquisitions and Disposals

Grand Pharm (China) entered into an agreement to acquire 81.0263% equity interest in Wuhan Kernel Bio Tech Company Limited on 22 September 2011.

Future Plans for Material Investments

The Grand Pharm (China) Group had any authorized but not provided for capital expenditure commitment of approximately HK$138.3 million in respect of acquisition of non-current assets as at 31 December 2011.

Employees and Remuneration Policy

As at 31 December 2011, the Grand Pharm (China) Group employed about 3,400 staff and workers in the PRC. The Grand Pharm (China) 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.

Contingent Liabilities

Grand Pharm (China) had no significant contingent liabilities as at 31 December 2011.

(iv) For the period ended 30 September 2012

Financial Review

For the period ended 30 September 2012, the total turnover of the Grand Pharm (China) Group was approximately HK$1,433.5 million, which was increased by approximately 30.8% in compare with the period ended 30 September 2012. During the period under review, the average gross profit margin of the Grand Pharm (China) Group was approximately 33.1%, while it was approximately 33.4% in 2011. The increment of turnover is mainly due to the turnover from the core pharmaceutical preparations of the Grand Pharm (China) 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.

The profit after tax of the Grand Pharm (China) Group was approximately HK$42.0 million during the nine months period ended 30 September 2012, while it was approximately HK$43.5 million in 2011. The difference was mainly due to the increment of distribution costs as the Grand Pharm (China) was exploring new markets and distribution channel during the period under review.

Business Review and Prospects

The cerebro-cardiovascular medicine is the core product and the business growth engine of the Grand Pharm (China) Group. During the nine months period ended 30 September 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 Grand Pharm (China) Group recorded substantial increment. Other core products of the Grand Pharm (China) Group include ophthalmic medicine and antibacterial products. During the current review period, the Grand Pharm (China) 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.

The relocation, expansion and construction of production bases will be completed in the late of 2013. This 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. Moreover, the Grand Pharm (China) 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.

There were no business segment information presented as all the turnover and operating result of the Grand Pharm (China) Group were generated from the manufacture and sales of pharmaceutical products. The geographical segments of the Grand Pharm (China) Group were classified according to the location of customers. The turnover generated from the PRC was approximately HK$999.7 million, while the turnover generated from other areas such as America, Europe, etc. was approximately HK$433.8 million.

Financial Resources and Liquidity

As at 30 September 2012, the Grand Pharm (China) Group had current assets of approximately HK$1,298.9 million (31 December 2011: HK$935.7million) and current liabilities of HK$1,295.7 million (31 December 2011: HK$875.2 million). The current ratio was 1.00 at 30 September 2012 as compared with 1.07 at 31 December 2011.

The Grand Pharm (China) Group's cash and bank balances as at 30 September 2012 amounted to approximately HK$329.2 million (31 December 2011: approximately HK$301.5 million).

As at 30 September 2012, the Grand Pharm (China) Group had outstanding bank loans of approximately HK$1,062.5 million (31 December 2011: approximately HK$611.5 million). Included in the bank loans, there were bank loans of approximately HK$382.8 million which was denominated in US$. All other bank loans are denominated in RMB and granted by banks in the PRC, Japan, Macau and Hong Kong. The interest rates charged by banks ranged from 3.08% to 7.50% (for the year ended 31 December 2011: 2.5% to 7.22%) per annum. These bank loans were pledged by assets of the Grand Pharm (China) Group with a net book value of approximately HK$103.0 million (31 December 2011: approximately HK$164.0 million). The gearing ratio of the Grand Pharm (China) Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 150% at 30 September 2012 as compared with approximately 91% at 31 December 2011.

The purposes of borrowings are mainly used for financing short-term working capital and addition of fixed assets. Given that the turnover of the Grand Pharm (China) Group recorded a double-digit increment during the reviewing periods and the construction of new plants since 2011, the Grand Pharm (China) Group has made more new bank loans for short-term financing purposes.

In according to the agreement with the Wuhan government, the Grand Pharm (China) Group will receive compensation in the sum of RMB342 million in 2012 and 2013, and a further sum of RMB171 million after completion of the relocation of old plants (which is expected to take place in 2013), thus the Grand Pharm (China) Group is of the view that it will not have liquidity issues.

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

The Grand Pharm (China) Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. It is believed that the Grand Pharm (China) Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Grand Pharm (China) Group adopted a conservative treasury policy with most of the bank deposits being kept in RMB to minimize exposure to foreign exchange risks. As at 30 September 2012, the Grand Pharm (China) Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Significant Investments

There was no significant investment during the period.

Material Acquisitions and Disposals

There was no material acquisitions and disposals during the period.

Future Plans for Material Investments

The Grand Pharm (China) Group had any authorized but not provided for capital expenditure commitment of approximately HK$230.2 million in respect of acquisition of non-current assets as at 30 September 2012.

Employees and Remuneration Policy

As at 30 September 2012, the Grand Pharm (China) Group employed about 4,000 staff and workers in the PRC. The Grand Pharm (China) 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.

Contingent Liabilities

Grand Pharm (China) had no significant contingent liabilities as at 30 September 2012.

FINANCIAL EFFECTS OF THE ACQUISITION ON ASSETS, EARNINGS AND LIABILITIES OF THE COMPANY

Upon Completion, Grand Pharm (China) will remain as a non-wholly owned subsidiary of the Company, in which the equity interests held by the Group would increase from approximately 75.95% to 96.21%. The net assets of the Group would be reduced after the Completion due to the payment of the Consideration, while the share of profit after taxation of Grand Pharm (China) attributable to the Company would increase from approximately 75.95% to 96.21% and the financial results of Grand Pharm (China) shall continue to consolidate into the consolidated financial statements of the Company.

REASON FOR THE ACQUISITION

As disclosed in the announcement of the Company dated 29 November 2012 in relation to the Capital Injection, the proposed Capital Injection, if materialized, would result in the interest held by Wuhan State-Owned Assets Management Limited in Grand Pharm (China) being diluted from 20.26% to 7.53%. The completion of the proposed Capital Injection shall be conditional upon, among other matters, the obtaining of the approval from the WHGZW which is an administrative branch of SASAC in charge of the supervision over the transfer of state-owned assets in Wuhan City. Subsequently, it was informed by Wuhan State-Owned Assets Management Limited that WHGZW did not grant the approval for the transfer. The reason for the rejection has not been disclosed to the Group.

Subsequent to the failure to obtain the requisite approval from WHGZW, Wuhan State-Owned Assets Management Limited decided to offer its interests in Grand Pharm (China) for sale by way of public tender organized at WGUAEE, and the Group was notified that it has successfully eligible to enter into the Share Transfer Agreement on 17 December 2012. As advised by the PRC legal advisers to the Company, the Acquisition shall not be subject to the further approval from WHGZW.

A brief comparison of the major terms of the Capital Injection and the Acquisition is summarized as follows:

	Capital Injection	**Acquisition**
Amount of consideration payable	RMB313.0 million (equivalent to approximately HK$384.4 million)	RMB134.9 million (equivalent to approximately HK$167.6 million)
Increase in percentage interest of the Group in Grand Pharm (China) immediately after completion of the relevant transaction	15.12% on fully diluted basis	20.26%
Amount of cash receivable by Wuhan Stated-Owned Assets Management Limited	Approximately RMB48 million (approximately HK$59.6 million) by way of dividends	RMB134.9 million (equivalent to approximately HK$167.6 million)
Board representation after the relevant transaction	five out of seven	five out of five

The Directors are of the view that the Acquisition allows the Group to step up its interests in Grand Pharm (China) with relatively less consideration payable, and is of mutual benefits to both parties and in the interests of the Company and the Shareholders as a whole. In addition, the Acquisition is the best available way to allow the Group to gradually consolidate more equity interest in Grand Pharm (China) which is in line with the long term development objective of the Group. Having said that, save for the abovementioned aspects, given the difference in nature, the Directors are of the view that the Capital Injection and Acquisition are incomparable.

Prior to the Completion, the Group held approximately 75.95% equity interest in Grand Pharm (China). The ultimate beneficial owners of the remaining interests in the Grand Pharm (China) are as follows:

(i) 20.26% owned by 武漢國有資產經營公司 (Wuhan State-Owned Assets Management Limited#) which is wholly owned by WHGZW;

(ii) 3.39% owned by 武漢開元科技創業投資有限公司 (Wuhan KeyWin Venture Capital Co., Ltd*) which is owned (a) as to 35.02% by 武漢華漢投資管理有限公司 (Wuhan Huahan Investment Management Company Limited#), (b) as to 29.46% by 武漢長江世紀投資有限公司 (Wuhan Changjiang Century Investment Company Limited#), (c) as to 17.39% by 武漢車都建設投資有限公司 (Wuhan Chedu Construction Investment Company Limited#), (d) as to 7.72% by 武漢正信國有資產經營公司 (Wuhan Zhengxin State-owned Operation Company Limited#), (e) as to 6.55% by 武漢證券有限責任公司 (Wuhan Securities Company Limited#) and (f) as to 3.86% by 武漢鍋爐集團有限公司 (Wuhan Boiler Group Limited#);

(iii) 0.23% owned by 三明市岩前綜合化工有限公司 (San Ming City Yan Qian Zong He Hua Gong Limited#) which is wholly owned by Wu Wenzi; and

(iv) 0.17% owned by 潛江市潛盛國有資產管理有限公司 (Qian Jiang City Qian Sheng State-Owned Assets Management Limited#) which is wholly owned by 潛江市人民政府國有資產監督管理委員會辦公室 (State-owned Assets Supervision and Administration Commission of Qian Jiang Municipal People's Government#).

The 3.39% equity interest in Grand Pharm (China) held by 武漢開元科技創業投資有限公司 was acquired by the Group on 21 December 2012, details of which have been included in the announcement of the Company dated 21 December 2012. Assuming the said transaction and the Acquisition has completed, the Group will own 99.6% equity interest in Grand Pharm (China) and the remaining 0.23% and 0.17% equity interest in Grand Pharm (China) will be owned by 三明市岩前綜合化工有限公司 and 潛江市潛盛國有資產管理有限公司 respectively. Although the Company is aiming to further consolidate its control in Grand Pharm (China) to achieve its long-term vision of developing pharmaceutical business in the PRC, the Group has no current intention to acquire the remaining equity interest in Grand Pharm (China).

The Board is optimistic about the future development of Grand Pharm (China), and is of the view that the Acquisition may allow the Group to consolidate its control over Grand Pharm (China) and generate good return from its growing business in the future. The Acquisition is also in line with the long term development strategy of the Group. Further, the Company does not notice any material disadvantage of the Acquisition thus far. Before the Completion, Wuhan State-Owned Assets Management Limited is only an investor of the Grand Pharm (China) and does not take part in the usual operation of the Grand Pharm (China) Group. Other than the director assigned by it in Grand Pharm (China), it does not appoint any other staffs in the Grand Pharm (China) Group. As such, although Wuhan State-Owned Assets will cease to be a shareholder of Grand Pharm (China) after Completion, the Directors are of the view that there should not be any material impact on the operation and financial position of Grand Pharm (China).

Based on the above, the Board is of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one of the relevant applicable percentage ratio calculated in accordance with the Listing Rules is more than 25% but less than 100%, the Acquisition constitutes a major transaction on the part of the Company under the Listing Rules. Further, as Wuhan State-Owned Assets Management Limited is interested in 20.26% of the entire issued share capital of the Grand Pharm (China), Wuhan State-Owned Assets Management Limited is the connected person of the Company. Therefore, the Acquisition constitutes a non-exempted connected transaction on the part of the Company under the Listing Rules and is subject to reporting, announcement and the Independent Shareholders' approval requirements.

INDEPENDENT BOARD COMMITTEE

Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition. Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

WAIVER FOR CONVENING SHAREHOLDERS' MEETING AND DELAY IN DESPATCH OF CIRCULAR

According to Rules 14.44 and 14A.43 of the Listing Rules, where Shareholders' approval of a transaction is required, such approval shall be given by a majority vote at a general meeting of Shareholders unless (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the transaction; and (2) a written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who (together) hold more than 50% in nominal value of the Shares giving the right to attend and vote at the general meeting to approve the transaction, in which case a written Shareholders' approval may be accepted in lieu of holding a general meeting, provided that no qualified opinion is issued by the auditors in the accountant report of Grand Pharm (China).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the transactions contemplated under the Acquisition and are required to abstain from voting on the relevant resolutions to approve relevant transactions. As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition and no qualified opinion has been issued by the auditors in the accountants' report on Grand Pharm (China), all conditions under Rule 14.44 of the Listing Rules have been fulfilled, no waiver is required to be obtained from the Stock Exchange. Further, the Company has made an application pursuant to Rule 14A.43 of the Listing Rules to the Stock Exchange for a waiver to convene a general meeting on the aforementioned grounds. The Stock Exchange has granted such a waiver to the Company from strict compliance with Rule 14A.43 on 3 December 2012.

Further, the Board confirms that no Director has any material interests in the Share Transfer Agreement that is required to abstain from voting on the board resolution for approving the Acquisition.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Pursuant to Rules 14.44 and 14A.43 of the Listing Rules, the written approval from Outwit has been accepted in lieu of holding a meeting to approve the Acquisition. Outwit, the controlling Shareholder holding approximately 1,228,275,094 Shares (representing approximately 62.60% of the issued share capital of the Company) as at the Latest Practicable Date has approve the Acquisition in writing. Hence, no general meeting of the Company will be held for approving the Acquisition.

In addition, according to Rule 14.41(a) of the Listing Rules, as the Acquisition has been approved by way of written shareholders' approval from Outwit, under Rule 14.41(a) of the Listing Rules, the Company shall send a circular in relation to the Acquisition to the Shareholders within 15 Business Days after publication of the relevant announcement, i.e. on or before 20 December 2012. As additional time was required to finalise the audited financial statements of Grand Pharm (China), the date of despatch of this circular has been postponed to a date on or before 2 April 2013. The Company has applied to the Stock Exchange for waivers from strict compliance with Rule 14.41(a) of the Listing Rules such that the despatch of the circular has been postponed to a date on or before 2 April 2013. Such waivers have been granted by the Stock Exchange to the Company on 21 December 2012, 2 January 2013, 21 January 2013 and 28 February 2013 respectively.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

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)

26 March 2013

To the Independent Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 26 March 2013 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the Acquisition whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Guangdong Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Share Transfer Agreement was entered into on normal commercial terms; and (ii) the terms of the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 25 to 38 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 23 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Share Transfer Agreement and the advice of Guangdong Securities, we are of the opinion that (i) the Share Transfer Agreement was entered into on normal commercial terms; and (ii) the terms of the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Yours faithfully
By order of the Board of
China Grand Pharmaceutical and Healthcare Holdings Limited

So Tosi Wan, Winnie	**Lo Kai Lawrence**	**Pei Geng**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

粵海證券有限公司
Guangdong Securities Limited

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

26 March 2013

To: The independent board committee and the independent shareholders of China Grand Pharmaceutical and Healthcare Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 26 March 2013 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 29 November 2012, the Group submitted application together with the Guarantee Payment to the WGUAEE for participating in the Tender after the Mandate was granted by a written approval from Outwit on the same day and such application had been validly tendered and not been withdrawn. On 17 December 2012, the Group further announced that it was eligible to enter into the Share Transfer Agreement with Wuhan State-Owned Assets Management Limited for the Sale Interest at the Consideration of approximately RMB134.9 million (equivalent to approximately HK$167.6 million). Details of the aforesaid can be referred to in the announcements of the Company dated 29 November 2012 and 17 December 2012 respectively.

The Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. No Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition and no qualified opinion has been issued by the auditors in the accountants' report on Grand Pharm (China). The Stock Exchange has granted a waiver from strict compliance with Rule 14A.43 of the Listing Rules on 3 December 2012. The written approval from Outwit has been accepted in lieu of holding a meeting to approve the Acquisition. Hence, no general meeting of the Company will be held for approving the Acquisition.

An Independent Board Committee comprising Ms. So Tosi Wan, Winnie, Mr. Lo Kai Lawrence and Dr. Pei Geng (all being independent non-executive Directors) has been established to advise the

Independent Shareholders on (i) whether the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Grand Pharm (China), Outwit, 武漢和勤艾管理諮詢有限公司(Wuhan Heqinlove Consultation Management Co., Ltd.#), Wuhan State-Owned Assets Management Limited or their respective subsidiaries or associated companies, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

(1) Background of the Acquisition

Information on the Group

As referred to in the Board Letter, the Group is principally engaged in the business of manufacture and sales of pharmaceutical products in the PRC.

Set out below are the consolidated financial information on the Group for the six months ended 30 June 2012 and for the two years ended 31 December 2011 as extracted from the Company's interim report for the six months ended 30 June 2012 (the "**2012 Interim Report**") and the Company's annual report for the year ended 31 December 2011 (the "**2011 Annual Report**"):

	For the six months ended 30 June 2012 (unaudited) *HK$'000*	For the year ended 31 December 2011 (audited) *HK$'000*	For the year ended 31 December 2010 (audited) *HK$'000*	% change from 2010 to 2011 *%*
Turnover	1,059,000	1,647,576	1,054,754	56.20
Gross profit	336,649	515,099	374,807	37.43
Profit for the period/year	33,916	86,671	154,277	(43.82)

From the above table, we noted that the turnover of the Group has increased by approximately 56.20% for the year ended 31 December 2011. With reference to the 2011 Annual Report and as advised by the Directors, the increase was mainly due to the approximately 30% increment of the turnover of pharmaceutical raw materials and intermediates, while the gross profit margin of these products was relatively lower as compared with pharmaceutical preparations. However, the profit of the Group decreased by approximately 43.82% for the year ended 31 December 2011 and the Directors advised us that the decrease was mainly due to the decrease in government grants in 2011.

With reference to the 2012 Interim Report, 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 characterised by the products of niche market, and to become one of the fastest growing companies among the pharmaceutical sector in the Hong Kong capital market. As advised by the Directors, 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.

Information on Grand Pharm (China)

As extracted from the Board Letter, Grand Pharm (China) is a company established in the PRC with limited liability. Grand Pharm (China) and its subsidiaries are principally engaged in the business of development, production and sales of pharmaceutical products and raw material pharmaceuticals.

On 14 February 2012, the Group entered into an agreement to acquire approximately 2.28% equity interest in Grand Pharm (China) (the "**2012 First Acquisition**") at the consideration of RMB9.66 million (representing approximately RMB4.24 million per each percentage of equity interest in Grand Pharm (China)) and the equity interest held by the Group in Grand Pharm (China) increased from approximately 73.67% to approximately 75.95% after completion of the 2012 First Acquisition. Subsequent to the entering into of the Share Transfer Agreement and on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) (the "**2012 Second Acquisition**") at the consideration of RMB20.064 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). The 2012 Second Acquisition had been completed on 28 December 2012. Immediately after completion of the 2012 Second Acquisition and the Acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%.

Tabularised below are the audited consolidated turnover and profit before and after taxation of Grand Pharm (China) prepared in accordance with the PRC GAAP for each of the two years ended 31 December 2011:

	For the year ended 31 December 2011	**For the year ended 31 December 2010**
	RMB'000	*RMB'000*
Turnover	1,209,089	932,348
Profit before taxation	75,265	68,463
Profit after taxation	58,325	58,220

	As at 31 December 2011	**As at 31 December 2010**
	RMB'000	*RMB'000*
Net assets value	501,595	469,921

As advised by the Directors, the business scale of Grand Pharm (China) in terms of turnover and net assets value has been expanding in recent years through acquisitions of related medical assets and launch of various pharmaceutical products and raw material pharmaceuticals while various research and development expenses were recognised in the financial statements of Grand Pharm (China). Despite the foregoing, the Directors expect that the financial performance of Grand Pharm (China) will improve after the aforesaid acquisitions and launch of new products.

Reasons for the Acquisition

As advised by the Directors, the completion of the proposed increase in the registered capital of Grand Pharm (China) (the "**Capital Injection**") as announced by the Company on 3 July 2012 was conditional upon, among other matters, the obtaining of necessary approvals from the PRC authorised authorities by Grand Pharm (China) in respect of the Capital Injection on or before 30 September 2012, including the approval from the 武漢市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Wuhan Municipal People's Government#) (the "**WHGZW**"), which is an administrative branch of SASAC in charge of the supervision over the transfer of state-owned assets in Wuhan City. Grand Pharm (China) was informed by Wuhan State-Owned Assets Management Limited that the WHGZW did not grant the approval for the transfer. The reason for the rejection has not been disclosed to the Group.

Subsequent to the failure to obtain the requisite approval from the WHGZW, Wuhan State-Owned Assets Management Limited decided to offer its interests in Grand Pharm (China) for sale by way of public tender organised at the WGUAEE, and the Group was notified that it has successfully been eligible to enter into the Share Transfer Agreement on 17 December 2012.

As the natures of the Capital Injection and the Acquisition are different, we concur with the Directors that the terms of the Capital Injection and the Acquisition are incomparable.

As disclosed in the announcement of the Company dated 9 January 2013, a non-wholly owned subsidiary of Grand Pharm (China) entered into a licensing agreement with Biohit Oyj, a Finnish company principally engaged in the research, manufacture, sale of pharmaceutical and healthcare products, in relation to the provision of right from Biohit Oyj to Grand Pharm (China) to use the intellectual property rights and know-how of Biohit Oyj to exclusively manufacture and distribute the acetaldehyde binding products, being a pharmaceutical product reducing the amount of carcinogenic acetaldehyde in anacidic stomach developed by Biohit Oyj, in the PRC.

As also disclosed in the announcement of the Company dated 22 February 2013, Grand Pharm (China) entered into a joint venture agreement with 黃石飛雲製藥有限公司(HuangShi Feiyun Pharmaceutical Company Limited#), one of the largest anti-tumor and anti-viral medicines manufacturers in the Hubei Province, the PRC with nearly a hundred types of pharmaceutical products, in relation to the establishment of a joint venture company in Huangshi, the PRC. Upon the establishment, the joint venture company will become a 60% owned subsidiary of the Company through Grand Pharm (China). The purpose of establishing the joint venture company is to set up a national naturally-sourced medicine research and development and manufacturing base in the Huangshi Development Zone, the PRC. The Directors consider the future prospects of Grand Pharm (China) to be positive.

With reference to the Board Letter, the Board is optimistic about the future development of Grand Pharm (China), and is of the view that the Acquisition may allow the Group to consolidate its control over Grand Pharm (China) and generate good return from its growing business in the future. The Acquisition is also in line with the long term development strategy of the Group.

As further confirmed by the Directors, as at the Latest Practicable Date, the board of directors of Grand Pharm (China) comprised seven directors, among which five were nominated by the Group. Upon Completion, the board of directors of Grand Pharm (China) will comprise five directors, which will all be nominated by the Group.

In light of the above reasons for and potential benefits of the Acquisition, we concur with the Directors that the Acquisition, which is not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the Share Transfer Agreement

The Share Transfer Agreement

The Share Transfer Agreement was entered into between 武漢和勤艾管理諮詢有限公司 (Wuhan Heqinlove Consultation Management Co., Ltd.#), being a wholly-owned subsidiary of the Company, and Wuhan State-Owned Assets Management Limited on 17 December 2012 (after trading hours). Pursuant to the Share Transfer Agreement, Wuhan State-Owned Assets Management Limited has agreed to sell and the Group has agreed to acquire the Sale Interest, representing approximately 20.26% of the issued share capital of Grand Pharm (China) as at the Latest Practicable Date.

Completion

Pursuant to the Share Transfer Agreement, the 產權交易憑證(asset transfer certificate#) would be issued by the WGUAEE and Wuhan State-Owned Assets Management Limited shall convene a general meeting for approving resolutions in relation to the transfer of the Sale Interest and in particular, to amend its articles of association to that effect. It shall also procure Grand Pharm (China) to proceed with completing the necessary registration procedures for the change in shareholders with the relevant authorities in the PRC and 武漢和勤艾管理諮詢有限公司(Wuhan Heqinlove Consultation Management Co., Ltd.#) shall assist and co-operate with Wuhan State-Owned Assets Management Limited in this regard.

Completion has been taken place after the completion date of change in shareholders at Wuhan Administrator for Industry & Commerce on 28 December 2012.

Undertakings given by the Group

The Group has undertaken that it will not transfer any Sale Interest for three years from the Completion Date.

The Consideration

The Consideration is approximately RMB134.9 million (equivalent to approximately HK$167.6 million) and was satisfied by the Group in the following manner:

(a) approximately RMB40.5 million (equivalent to approximately HK$50.3 million), as the Guarantee Payment, was satisfied by the Group on the date of submitting the application for participating in the Tender on 29 November 2012 after the Mandate was granted by the written approval from Outwit on the same day; and

(b) the remaining balance of approximately RMB94.4 million (equivalent to approximately HK$117.3 million) was paid by the Group to Wuhan State-Owned Assets Management Limited on the fifth Business Day after the date of the Share Transfer Agreement.

The Consideration was financed by the Group's internal resources.

As confirmed by the Directors, the Consideration is equivalent to the 掛牌價 (listing price#) of the Tender. As further advised by the Directors, the 掛牌價 (listing price#) was determined with reference to a valuation report dated 30 June 2012 prepared by 武漢華晟正浩資產評估有限公司 (Wuhan Hua Sheng Zheng Hao Assets Appraisal Limited#) in which the total assets value, the total liabilities, the net assets value and the corresponding value of the Sale Interest were assessed to be approximately RMB2,048.7 million, approximately RMB1,308.8 million, approximately RMB740.0 million and approximately RMB149.9 million respectively.

Trading multiples analysis for the Acquisition

In order to assess the fairness and reasonableness of the Consideration, we have performed a trading multiples analysis which includes the price to earnings ratio ("**PER**") and the price to book ratio ("**PBR**") analysis. We have searched for companies listed on the main board of the Stock Exchange engaging in similar lines of business (i.e. over 50% of turnover engaged in similar lines of business) as Grand Pharm (China), i.e. the development, production and sales of pharmaceutical products and raw material pharmaceuticals (the "**Market Comparables**") for comparison. To the best of our knowledge and endeavour, we identified 25 exhaustive companies which met the said criteria. It should be noted that the businesses, operations and prospects of Grand Pharm (China) are not exactly the same as the Market Comparables, and we have not conducted any in-depth investigation into the businesses and operations of the Market Comparables.

Set out below are the PERs and the PBRs of the Market Comparables based on their closing prices as at 17 December 2012, being the date of the Share Transfer Agreement, and their relevant published financial information:

Company name (stock code)	**Principal business**	**Year end date**	**PER** *(times)*	**PBR** *(times)* *(Note 1)*
Pak Fah Yeow International Limited (239)	Manufacture and sale of Hoe Hin Brand of products, treasury and property investment.	31/12/2011	14.66	1.63
Tianda Pharmaceuticals Limited (455)	Manufacture and sales of pharmaceutical and biotechnology products.	31/3/2012	8.94	0.92
Sihuan Pharmaceutical Holdings Group Limited (460)	Manufacture and sale of pharmaceutical products.	31/12/2011	17.91	2.05
Lansen Pharmaceutical Holdings Limited (503)	Manufacturing and trading of pharmaceutical products.	31/12/2011	9.74	1.21
Winteam Pharmaceutical Group Limited (570)	Production and sale of Chinese medicine and pharmaceutical products.	31/12/2011	37.50	2.91
Hua Han Bio-Pharmaceutical Holdings Limited (587)	Manufacture and sale of pharmaceutical products, medicinal healthcare products for women and biopharmaceutical products.	30/6/2012	7.84	1.33
Shandong Xinhua Pharmaceutical Company Limited (719) *(Note 2)*	Development, production and sale of pharmaceutical raw materials, preparations, chemical products and other products.	31/12/2011	9.82	0.43

Company name (stock code)	Principal business	Year end date	PER *(times)*	PBR *(times)* *(Note 1)*
Extrawell Pharmaceutical Holdings Limited *(858)*	Marketing and distribution of pharmaceutical products, development, manufacture & sale of pharmaceutical products, commercial exploitation & development of genome-related technology, development commercialisation of oral insulin products.	31/3/2012	97.71	2.68
China Medical System Holdings Limited (867)	Marketing, promotion, sales and manufacturing of pharmaceutical products.	31/12/2011	28.25	4.18
Guangzhou Pharmaceutical Company Limited (874) *(Note 2)*	Manufacture and sales of Chinese Patent Medicine, wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; research and development of natural medicine and biological medicine.	31/12/2011	30.07	2.24
Asia Resources Holdings Limited (899) *(Note 3)*	Manufacture and sales of pharmaceutical products, exploration, exploitation and trading operation of iron ore.	31/3/2012	N/A *(Note 4)*	0.19
China Animal Healthcare Limited (940)	Manufacture, sale and distribution of compound chemical drugs (comprising powdered drugs and injection drugs) and biological drugs (comprising Mandatory Vaccines and non-Mandatory Vaccines), also produce additives to a lesser extent.	31/12/2011	9.12	1.54

Company name (stock code)	Principal business	Year end date	PER *(times)*	PBR *(times)* *(Note 1)*
Lee's Pharmaceutical Holdings Limited (950)	Development, manufacturing and sales of pharmaceutical products.	31/12/2011	30.14	5.02
Bloomage BioTechnology Corporation Limited (963)	Production and sale of bio-chemical products.	31/12/2011	15.22	3.21
China NT Pharma Group Company Limited (1011)	Supply chain of vaccines, promotion and sales services of vaccines and pharmaceutical products in China.	31/12/2011	3.23	0.38
CSPC Pharmaceutical Group Limited (1093)	Manufacture and sale of pharmaceutical products.	31/12/2011	24.59	1.06
Sinopharm Group Company Limited (1099) *(Note 2)*	Distribution of medicines, medical device & pharmaceutical products; operation of pharmaceutical chain stores, distribution of laboratory supplies; manufacture & distribution of chemical reagents; production & sale of related products.	31/12/2011	20.13	2.25
Sino Biopharmaceutical Limited (1177)	Research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.	31/12/2011	23.54	3.96
Tong Ren Tang Technologies Company Limited (1666) *(Note 2)*	Manufacturing and sales of Chinese Patent Medicine in the forms of granules, pills, tablets and soft capsules.	31/12/2011	27.41	3.73
Wuyi International Pharmaceutical Company Limited (1889)	Development, manufacturing, marketing and sales of pharmaceutical products.	31/12/2011	9.20	0.33

Company name (stock code)	Principal business	Year end date	PER *(times)*	PBR *(times)* *(Note 1)*
Lijun International Pharmaceutical (Holding) Company Limited (2005)	Research, development, manufacture and sale of wide range of finished medicines and bulk pharmaceutical through a network independent retailers.	31/12/2011	N/A *(Note 4)*	2.40
Shanghai Fosun Pharmaceutical (Group) Company Limited (2196) *(Note 2)*	Pharmaceutical manufacturing, pharmaceutical distribution and retail, healthcare services; and diagnostic products and medical devices.	31/12/2011	15.00	1.78
Dawnrays Pharmaceutical (Holdings) Limited (2348)	Development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceutical, bulk medicines and finished drugs.	31/12/2011	7.13	1.12
China Shineway Pharmaceutical Group Limited (2877)	Research and development, manufacture and trading of Chinese pharmaceutical products.	31/12/2011	11.38	2.27
The United Laboratories International Holdings Limited (3933)	Sale of intermediate products, sale of bulk medicine and sale of antibiotics finished products, non-antibiotics finished products and capsule casings.	31/12/2011	60.54	1.05
Maximum			**97.71**	**5.02**
Minimum			**3.23**	**0.19**
Average			**22.57**	**2.00**
The Consideration			**9.15**	**1.02**

Source: the Stock Exchange website (www.hkex.com.hk) and Bloomberg

Notes:

1. Save for Hua Han Bio-Pharmaceutical Holdings Limited, the PBRs of the selected companies were calculated based on their latest published interim reports.

2. The PERs and PBRs of the selected companies were calculated based on the numbers of H shares and domestic shares/A shares of the relevant companies (as the case may be) as at the date of the Share Transfer Agreement.

3. According to the annual report of Asia Resources Holdings Limited for the year ended 31 March 2012, all of its revenue was derived from the manufacturing and sales of pharmaceutical products. According to the interim report of Asia Resources Holdings Limited for the six months ended 30 September 2012, around 75% of its total assets were related to the iron ore exploration, exploitation and trading operations.

4. Asia Resources Holdings Limited and Lijun International Pharmaceutical (Holding) Company Limited recorded losses for their financial years ended 31 March 2012 and 31 December 2011 respectively.

As depicted by the above table, the PERs of the Market Comparables ranged from approximately 3.23 times to approximately 97.71 times, with an average of approximately 22.57 times.

Given that the audited profit after taxation of Grand Pharm (China) and its subsidiaries for the year ended 31 December 2011 prepared in accordance with Hong Kong Financial Reporting Standards was approximately HK$90.41 million, the implied PER of the Consideration is approximately 9.15 times to "approximately 20.26% of the audited profit after taxation of Grand Pharm (China) and its subsidiaries for the year ended 31 December 2011", which falls within the PER range of the Market Comparables. Among the Market Comparables, we noted that the PERs of Extrawell Pharmaceutical Holdings Limited ("**Extrawell**") and The United Laboratories International Holdings Limited ("**United Laboratories**") were substantially above the range of the PERs of the other Market Comparables. We are therefore of the view that the PERs of such companies are rather outliers. The PERs of the Market Comparables (excluding Extrawell and United Laboratories) should range from approximately 3.23 times to approximately 37.50 times, with an average of approximately 17.18 times. Hence, the implied PER of the Consideration of approximately 9.15 times still falls within the PER range of the Market Comparables (excluding Extrawell and United Laboratories) and is lower than the average PER of the Market Comparables (excluding Extrawell and United Laboratories).

We also noticed that the PBRs of the Market Comparables ranged from approximately 0.19 time to approximately 5.02 times, with an average of approximately 2.00 times.

Given that the audited net assets of Grand Pharm (China) and its subsidiaries as at 30 September 2012 prepared in accordance with Hong Kong Financial Reporting Standards was approximately HK$809.55 million, the implied PBR of the Consideration is approximately 1.02 times to "approximately 20.26% of the audited net assets of Grand Pharm (China) and its subsidiaries as at 30 September 2012", which falls within the PBR range of the Market Comparables. Among the Market Comparables, we noted that around 75% of the total assets of Asia Resources Holdings Limited ("**Asia Resources**") as at 30 September 2012 were related to the iron ore exploration, exploitation and trading operations. We are therefore of the view that the PBR of Asia Resources is unsuitable to be used in our trading multiples (i.e. PBRs) analysis. The PBRs of the Market Comparables (excluding Asia Resources) should range from approximately 0.33 time to approximately 5.02 times, with an average of approximately 2.07 times. Hence, the implied PBR of the Consideration of approximately 1.02 times still falls within the PBR range of the Market Comparables (excluding Asia Resources) and is lower than the average PBR of the Market Comparables (excluding Asia Resources).

In addition, we noted that the Consideration (representing approximately RMB6.66 million per each percentage of equity interest in Grand Pharm (China)) represents a higher acquisition price as compared to the considerations for the 2012 First Acquisition (i.e. approximately RMB4.24 million) and the 2012 Second Acquisition (i.e. approximately RMB5.92 million) on a proportionate basis. In this regard, the Directors advised us that Wuhan State-Owned Assets Management Limited was a major shareholder of Grand Pharm (China) which held approximately 20.26% equity interest in Grand Pharm (China), while the vendors in the 2012 First Acquisition and the 2012 Second Acquisition held only approximately 2.28% and 3.39% equity interests in Grand Pharm (China) respectively. Therefore, Wuhan State-Owned Assets Management Limited had higher bargaining power to ask for a relatively higher consideration. Moreover, we are of the view that while considering the fairness and reasonableness of the Consideration, Independent Shareholders should also take into account (i) that the Consideration is equivalent to the 掛牌價(listing price#) of the Tender; (ii) that the Directors are optimistic about the future development of Grand Pharm (China) and it is the business strategy of the Group to consolidate its control over Grand Pharm (China) as detailed under the section headed "Reasons for the Acquisition" above; as well as (iii) the results of our trading multiples analysis as set forth above. Given the foregoing, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Based on the foregoing, we concur with the Directors that the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Possible financial effects of the Acquisition

As confirmed by the Directors, upon Completion, Grand Pharm (China) would remain as a non-wholly owned subsidiary of the Company, in which the equity interests held by the Group would increase from approximately 75.95% to approximately 96.21%. The net assets of the Group would be reduced after the Completion due to the payment of the Consideration, while the share of profit after taxation of Grand Pharm (China) attributable to the Company would increase from approximately 75.95% to approximately 96.21% and the financial results of Grand Pharm (China) shall continue to be consolidated into the consolidated financial statements of the Company.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group would be upon Completion.

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition, which is not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Share Transfer Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard if a general meeting were to be convened and held by the Company.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The audited financial information of the Group for each of the three years ended 31 December 2011 can be referred to the annual reports of the Company for the years ended 31 December 2009 (pages 20 to 87), 2010 (pages 26 to 115) and 2011 (pages 26 to 99) respectively; and the unaudited interm report consolidated results and assets and liabilities of the Group for the six months ended 30 June 2011 can be referred to the interim report of the Company for six months ended 30 June 2011 (pages 18 to 33).

The abovementioned financial information has been published on both the websites of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.chinagrandpharm.com/html/ir_reports.php). The auditors of the Company have not issued any qualified opininon on the Group's financial statements for the financial eyars ended 2011.

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 January 2013, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK$1,492.0 million, comprising bank loans of approximately HK$1,479.8 million and amount due to holding company of approximately HK$12.2 million. Certain bank loans are secured by the pledge of certain prepaid lease payments, buildings and pledged bank deposits of the Group. The remaining bank loans are guaranteed by China Grand Enterprises Incorporation.

Amount due to holding company is unsecured, interest bearing at 5% per annum and not repayable within next twelve months. Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 January 2013, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

Disclaimers

Save as aforesaid above or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in ordinary course of business, at the close of business on 31 January 2013, the Group did not have any outstanding debts securities, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptances credits, material hire purchase commitments, mortgages or charges, which are either guaranteed, unguaranteed, secured or unsecured. Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 January 2013, up to and including the Latest Practicable Date.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the cash flows generated from the operating activities, the financial resources presently available to the Group, and the estimated net consideration to be paid for the Acquisition, the Group has sufficient working capital for its present requirements and for the period up to twelve months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

At the end of 2010, Grand Pharm (China) entered into the resumption and relocation compensation agreement with the "Land Reserve Center" and will receive a relocation compensation amounts to RMB855 million. 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.

These new plants which are currently under construction and the construction progress is within schedule. Most of the construction work of the production buildings has been completed and the relocation of production facilities is underway. The overall relocation project is expected to be completed in 2013, and it 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 the production facilities to achieve international high-end quality certification. Furthermore, it may also lead Grand Pharm (China) Group to reform their technology and the advanced facilities may also enhance the product quality and production efficiency and thus 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.

The Group has enhanced its product competitive power and maintained the high speed development of the Group's business through the Group's "Two Fronts" business model and "Two Acids" business strategy.

The "Two Fronts" business model means to develop pharmaceutical intermediates and raw material apart from the Group's core pharmaceutical preparations products. For the pharmaceutical preparations segment, the Group treats research and technological innovation as precursor, and it will actively develop cerebro-cardiovascular emergency medicines and individual packages of ophthalmic products with preservative-free characteristics. Also, it will actively participate in and support the research and development of anticancer product so as to enhance the proportion of pharmaceutical preparations products in its overall sales revenue and gross profit margin level.

Hubei Ruizhu will act as an important part in the development of the ophthalmic products, and the Group will contribute more effort on the marketing of this kind of product. In 2012, the Group is exploring 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 for the period ended 30 June 2012 increased by approximately 30.6% in compared with the corresponding period of 2011.

While the abovementioned business model is being implemented, the Group can continue to maintain and strengthen its leading position in the domestic and international markets for the characteristics of pharmaceutical raw materials and intermediates. The Group will focus on four particular 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 produce turnover of more than hundred million in RMB. We will strengthen our core competitiveness by focusing on our research and development with pioneer technology, strong bargaining power and sustainable profitability. More importantly, the PRC play a significant role in the global steroid hormones sector, and that there are only a few of the market participants which are equipped with the complicated and advanced production technology thusfar, there is a significant room for expansion in the global steroid hormones sector in the PRC.

The Group will fully utilize its market position and bargaining power in the domestic and overseas steroid hormones area to introduce advanced technology in biotechnology, to gain access to high-end international certification and to improve the profitability of the business. Through the integration and management of our two subsidiaries, namely Zhejiang Xianju Xianle Pharmaceutical Company Limited and Jiangsu Grand Xianle Pharmaceutical Company Limited, which are principally engaged in the manufacture and sale of steroid hormones products, the Group will expand their production capacities to capture the future business opportunities when available. Certain steroid hormones 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. The operating result of our steroid hormones also recorded continuous growth, in which the turnover amount of the 2 major Glucocorticoid products, Betamethasone and Dexamethasone, during this six months period ended 30 June 2012 was increased by approximately 6.2% in compare with the same period of last year.

The implementation of the "Two Acids" business strategy is based on the trend of the development on human pharmaceutical and healthcare. The Group is focus on the development of two amino acids products series which are related to healthcare. Since 2010, the two subsidiaries of the Group, namely Wuhan Hoyo and Hubei Fuchi are focusing on research and development and manufacture and sale of amino acid series, and are actively penetrating and developing the downstream preparations, especially in Taurine and Acetyl Cysteine and its intermediates which are currently placed as one of the global market leader positions. The Group may focus on research and development, manufacturing and sales of these products, and take advantage of its biotechnology innovation and enhancement of production capacity to uphold its operating quality, management efficiency and to obtain further international accreditations. We may also actively expand the pharmaceutical preparations business and surge up the profitability of the Group. 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, including Taurine, of the Group was increased by approximately 21.7% in compare with the same period of last year.

Wuhan Kernel Bio Tech Co., Limited, a subsidiary newly acquired by the Group in the second half of last year and was under business restructuring in the first half of 2012. Its development objective is to expand the products pools and to capture opportunities available in the market. It was expanding a production line to enhance the catalytic reaction efficiency in order to cope with the standard of high-end products in the first half of 2012. It is also planned to install another new production line in the coming periods for the production of new products.

The Group will pay close attention to comprehend the market changes and development direction of both the PRC domestic and international markets. We will fully utilize the opportunities of relocating certain subsidiaries and reorganise product structures to broaden core products production capacities. Base on the existing products, human resources and production facilities, we can 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 becoming one of the leading enterprises in the PRC pharmaceutical market in the forthcoming five years, and becoming one of the fastest growing pharmaceutical companies in Hong Kong capital market.

In related to the acquisition of Henan Lihua Pharmaceutical Company Limited ("Henan Lihua"), the draft share transfer agreement is still under review by the vendors of Henan Lihua, and as at the Latest Practicable Date the vendors of Henan Lihua have not executed such agreement pursuant to the terms of the framework agreements. The Directors attempted all possible ways to reduce the disagreement between the parties to the framework agreement and to protect the interest of the Group as a whole under the framework agreement. The Company has taken active steps such as participating in the negotiations with the vendors of Henan Lihua with a view to reach a settlement on the said disagreement. The Directors also sought legal advice on taking legal actions against the vendors under the framework agreement and the Group has appointed PRC legal counsel to prepare for documents in order to protect its interest. As confirmed by the Directors, no consideration was paid under the framework agreement as at the date of this circular. Further announcement will be made promptly when there is any final conclusion or if there is any material development in this regard.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

26 March 2013

The Board of Directors
China Grand Pharmaceutical and Healthcare Holdings Limited
Units 3302, The Center
99 Queen's Road Central
HONG KONG

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information of Grand Pharm (China) Company Limited (遠大醫藥(中國)有限公司) ("Grand Pharm (China)") and its subsidiaries (collectively the "Grand Pharm (China) Group") for the years ended 31 December 2009, 2010 and 2011 and the period from 1 January 2012 to 30 September 2012 (the "Relevant Periods") and the notes thereto (the "Financial Information") for inclusion in the circular of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") dated 26 March 2013 (the "Circular") in connection with the Shares Transfer Agreement dated on 17 December 2012 (the Shares Transfer Agreement") entered into between Wuhan Heqinlove Consultation Management Co., Ltd. ("Wuhan Heqinlove"), an indirect wholly-owned subsidiary of the Company and 武漢國有資產經營公司 (transliterated as "Wuhan State-Owned Assets Management Limited) (the "Vendor"), which is wholly owned by State-owned Assets Supervision and Administration Commission of Wuhan Municipal People's Government (武漢市人民政府國有資產監管理委員會) pursuant to which Wuhan Heqinlove would acquire 20.26% of the entire equity interest in Grand Pharmaceutical (China) Co., Ltd. ("Grand Pharm (China)") at a total consideration of RMB134,922,900 (the "Consideration") (collectively referred as the ("Acquisition").

Pursuant to the Tender dated on 29 November 2012 was granted by the a written approval from Outwit Investments Limited ("Outwit"), the controlling shareholder of the Company holding approximately 62.60% of the total issued shares. The total Consideration was payable by the Group to the Vendor pursuant to Share Transfer Agreement. The Guarantee Payment in the sum of RMB40,500,000 would be applied towards settling part of the Consideration.

Grand Pharm (China) is principally engaged in manufacture and sales of pharmaceutical products in the People's Republic of China (the "PRC") and established in the PRC with limited liability on 24 February 1990. As at 30 September 2012, Grand Pharm (China) is 75.95% owned by China Grand (Hong Kong), 20.26% owned by Wuhan State-Owned Assets Management Limited, 3.39% owned by 武漢開元科技創業投資有限公司 (transliterated as "Wuhan Kai Yuen Ke Ji Chuang Ye Investment Limited"), 0.23% owned by 三明市岩前綜合化工有限公司 (transliterated as "San Ming City Yan Qian Zong He Hua Gong Limited") and 0.17% owned by 潛江市潛盛國有資產管理有限公司 ("transliterated as "Qian Jiang City Qian Sheng State-Owned Assets Management Limited"). Upon completion of the Acquisition, the percentage equity interests in the capital of Grand Pharm (China) held by the Group will be increased from approximately 75.95% to 96.21%.

Grand Pharm (China) has adopted 31 December as its year end date. The statutory audit financial statements of Grand Pharm (China) for the financial years ended 31 December 2009 and 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Wuhan Zhong Huan Certified Public Accountants Co. Ltd. (武漢眾環會計師事務所有限責任公司), certified public accountants registered in the PRC. The statutory audit financial statements of Grand Pharm (China) for the financial year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Zhonghuan Haihua Certified Public Accountants Co. Ltd. (眾環海華會計師事務所有限公司), certified public accountants registered in the PRC.

The statutory audit financial statements of Wuhan Wuyao Pharmaceutical Co., Limited ("Wuhan Wuyao") for the financial years ended 31 December 2009 and 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Wuhan Zhong Huan Certified Public Accountants Co. Ltd. (武漢眾環會計師事務所有限責任公司), certified public accountants registered in the PRC. The statutory audit financial statements of Wuhan Wuyao for the financial year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Zhonghuan Haihua Certified Public Accountants Co. Ltd. (眾環海華會計師事務所有限公司), certified public accountants registered in the PRC.

The statutory audit financial statements of Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo") for the financial year ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Wuhan Zhong Huan Certified Public Accountants Co. Ltd. (武漢眾環會計師事務所有限責任公司), certified public accountants registered in the PRC. The statutory audit financial statements of Wuhan Grand Hoyo for the financial year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Zhonghuan Haihua Certified Public Accountants Co. Ltd. (眾環海華會計師事務所有限公司), certified public accountants registered in the PRC.

The statutory audit financial statements of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") for the financial years ended 31 December 2010 and 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by 湖北陽新廣信聯合會計師事務所, certified public accountants registered in the PRC.

The statutory audit financial statements of Hubei Grand Everyday Bright Eyes Company Limited ("Hubei Ruizhu") for the financial year ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Wuhan Zhong Huan Certified Public Accountants Co. Ltd. (武漢眾環會計師事務所有限責任公司), certified public accountants registered in the PRC. The statutory audit financial statements of Hubei Ruizhu for the financial year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Zhonghuan Haihua Certified Public Accountants Co. Ltd. (眾環海華會計師事務所有限公司), certified public accountants registered in the PRC.

The statutory audit financial statements of Wuhan Kernel Bio Tech Co., Limited ("Wuhan Kernel") for the financial year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Zhonghuan Haihua Certified Public Accountants Co. Ltd. (眾環海華會計師事務所有限公司), certified public accountants registered in the PRC.

BASIS OF PREPARATION

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong, and applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Financial Information for each of the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information set out in this report has been prepared from the unaudited financial statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the contents of the Circular, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3 below. The directors of Grand Pharm (China) are responsible for the preparation of the Financial Information that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Listing Rules, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Financial Information that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of Grand Pharm (China) and of the Company, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Grand Pharm (China) Group as at 31 December 2009, 2010, 2011 and 30 September 2012 and of the results and cash flows of Grand Pharm (China) Group for the Relevant Periods then ended in accordance with Hong Kong Financial Reporting Standards.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of Grand Pharm (China) are responsible for the preparation of the unaudited financial information of the Grand Pharm (China) Group including the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2011 to 30 September 2011, together with the notes thereto (the "Unaudited Comparative Financial Information").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information, for which the directors of Grand Pharm (China) are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of Grand Pharm (China)'s management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

A. FINANCIAL INFORMATION OF THE GRAND PHARM (CHINA) GROUP

Consolidated Statement of Comprehensive Income

	Notes	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Turnover	7	545,435	1,014,643	1,423,639	1,095,546	1,433,498
Cost of sales		(295,341)	(647,773)	(959,569)	(730,043)	(958,564)
Gross profit		250,094	366,870	464,070	365,503	474,934
Other income	8	7,619	139,757	76,713	13,487	33,951
Distribution costs		(114,458)	(209,339)	(255,008)	(188,472)	(259,685)
Administrative expenses		(84,067)	(103,822)	(163,539)	(128,992)	(174,597)
Other operating expenses	9	(327)	(330)	(347)	(259)	(264)
Gain on bargain purchase		–	21,631	–	–	–
Share of results of associates		5,183	3,149	504	391	206
Finance costs	10	(7,012)	(17,633)	(19,634)	(10,727)	(30,697)
Profit before taxation		57,032	200,283	102,759	50,931	43,848
Taxation	11	(8,313)	(6,063)	(12,345)	(7,480)	(1,822)
Profit for the year/period	12	48,719	194,220	90,414	43,451	42,026
Other comprehensive income/(loss), net of tax:						
Exchange difference on translation of foreign operations		–	19,706	23,316	24,992	(4,075)
Change in fair value of available-for-sale financial assets, after tax		4,866	3,746	(3,844)	(3,524)	1,568
Other comprehensive income/(loss) for the year/period, net of tax		4,866	23,452	19,472	21,468	(2,507)
Total comprehensive income for the year/period		53,585	217,672	109,886	64,919	39,519

The accompany notes form an integral part of the Financial Information.

Consolidated Statement of Comprehensive Income (Continued)

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period attributable to:					
– Owners of Grand Pharm (China)	48,709	188,773	84,643	38,757	33,786
– Non-controlling interests	10	5,447	5,771	4,694	8,240
	48,719	194,220	90,414	43,451	42,026
Total comprehensive income attributable to:					
– Owners of Grand Pharm (China)	53,575	209,829	103,679	57,259	36,916
– Non-controlling interests	10	7,843	6,207	7,660	2,603
	53,585	217,672	109,886	64,919	39,519

Consolidated Statement of Financial Position

	Notes	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Non-current assets					
Property, plant and equipment	15	137,977	417,594	654,746	965,259
Prepaid lease payments	16	80,106	129,858	251,780	298,369
Interests in associates	18	44,882	5,076	8,469	8,876
Available-for-sale financial assets	19	29,422	35,055	51,737	53,911
Deposits for acquisition of non-current assets	20	–	37,000	63,037	12,246
Goodwill	21	–	–	17,094	17,277
Intangible assets	22	1,252	958	649	384
Deferred tax assets	23	–	2,188	3,589	3,594
Prepayments	24	–	20,415	23,984	28,971
Loan receivable	25	–	–	17,247	20,972
		293,639	648,144	1,092,332	1,409,859
Current assets					
Inventories	26	54,968	159,528	231,580	253,980
Held-to-maturity investments	27	–	–	31,006	19,744
Trade and other receivables	28	85,292	214,291	296,172	590,008
Loan receivable	25	–	–	7,392	22,206
Prepaid lease payments – current portion	16	1,901	3,271	6,115	5,964
Amount due from a fellow subsidiary	29	–	–	–	75,245
Pledged bank deposits	30	1,403	42,222	62,011	2,591
Cash and cash equivalents	30	60,175	286,894	301,470	329,199
		203,739	706,206	935,746	1,298,937
Current liabilities					
Trade and other payables	31	134,993	245,298	267,629	470,516
Borrowings	32	69,468	270,588	574,640	797,457
Tax payable		8,081	30,290	32,890	27,678
		212,542	546,176	875,159	1,295,651
Net current (liabilities)/assets		(8,803)	160,030	60,587	3,286
Total assets less current liabilities		284,836	808,174	1,152,919	1,413,145

Consolidated Statement of Financial Position

	Notes	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Non-current liabilities					
Borrowings	32	22,727	40,000	36,834	265,030
Deferred tax liabilities	33	2,158	24,117	40,418	40,025
Deferred income	34	–	83,529	298,125	298,541
		24,885	147,646	375,377	603,596
Net assets		259,951	660,528	777,542	809,549
Capital and reserves					
Paid-in capital	35	96,690	210,417	210,417	210,417
Reserves	36	162,467	366,813	459,111	495,937
Equity attributable to owners of Grand Pharm (China)		259,157	577,230	669,528	706,354
Non-controlling interests		794	83,298	108,014	103,195
Total equity		259,951	660,528	777,542	809,549

The accompanying notes form an integral part of the Financial Information.

Consolidated Statement of Changes in Equity

	Share capital HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000 (note (a))	Safety fund reserve HK$'000 (note (b))	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note (c))	Retained profits HK$'000	Equity attributable to owners of Grand Pharm (China) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	96,690	5,199	16,317	–	(207)	163	–	93,062	211,224	784	212,008
Profit for the year	–	–	–	–	–	–	–	48,709	48,709	10	48,719
Other comprehensive income/(loss) for the year:											
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	6,488	–	–	6,488	–	6,488
– Income tax relating to change in fair value of available–for-sale financial assets	–	–	–	–	–	(1,622)	–	–	(1,622)	–	(1,622)
Total comprehensive income for the year	–	–	–	–	–	4,866	–	48,709	53,575	10	53,585
Dividend for the year	–	–	–	–	–	–	–	(5,642)	(5,642)	–	(5,642)
Transfer	–	–	4,367	–	–	–	–	(4,367)	–	–	–
At 31 December 2009 and 1 January 2010	96,690	5,199	20,684	–	(207)	5,029	–	131,762	259,157	794	259,951
Profit for the year	–	–	–	–	–	–	–	188,773	188,773	5,447	194,220
Other comprehensive income/(loss) for the year:											
– Exchange difference on translation of foreign operations	–	–	–	–	17,310	–	–	–	17,310	2,396	19,706
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	4,995	–	–	4,995	–	4,995
– Income tax relating to change in fair value of available–for-sale financial assets	–	–	–	–	–	(1,249)	–	–	(1,249)	–	(1,249)
Total comprehensive income for the year	–	–	–	–	17,310	3,746	–	188,773	209,829	7,843	217,672
Capital contribution from shareholders	113,727	–	–	–	–	–	–	–	113,727	–	113,727
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(5,483)	–	(5,483)	74,661	69,178
Transfer	–	–	2,401	1,482	–	–	–	(3,883)	–	–	–
At 31 December 2010 and 1 January 2011	210,417	5,119	23,085	1,482	17,103	8,775	(5,483)	316,652	577,230	83,298	660,528

Consolidated Statement of Changes in Equity (Continued)

	Share capital HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000 (note (a))	Safety fund reserve HK$'000 (note (b))	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note (c))	Retained profits HK$'000	Equity attributable to owners of Grand Pharm (China) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2010 and 1 January 2011	210,417	5,199	23,085	1,482	17,103	8,775	(5,483)	316,652	577,230	83,298	660,528
Profit for the year	–	–	–	–	–	–	–	84,643	84,643	5,771	90,414
Other comprehensive income/(loss) for the year:											
– Exchange difference on translation of foreign operations	–	–	–	–	22,880	–	–	–	22,880	436	23,316
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	(5,126)	–	–	(5,126)	–	(5,126)
– Income tax relating to change in fair value of available–for-sale financial assets	–	–	–	–	–	1,282	–	–	1,282	–	1,282
Total comprehensive income/(loss) for the year	–	–	–	–	22,880	(3,844)	–	84,643	103,679	6,207	109,886
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	7	–	7	(6,447)	(6,440)
Arising on deemed acquisition of non-controlling interests	–	–	–	–	–	–	422	–	422	(422)	–
Non-controlling interests arising on the acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	25,378	25,378
Dividend for the year	–	–	–	–	–	–	–	(11,810)	(11,810)	–	(11,810)
Transfer	–	–	8,301	3,351	–	–	–	(11,652)	–	–	–
At 31 December 2011	210,417	5,199	31,386	4,833	39,983	4,931	(5,054)	377,833	669,528	108,014	777,542

Consolidated Statement of Changes in Equity (Continued)

	Share capital HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000 (note (a))	Safety fund reserve HK$'000 (note (b))	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note (c))	Retained profits HK$'000	Equity attributable to owners of Grand Pharm (China) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	210,417	5,199	31,386	4,833	39,983	4,931	(5,054)	377,833	669,528	108,014	777,542
Profit for the period	–	–	–	–	–	–	–	33,786	33,786	8,240	42,026
Other comprehensive income for the period:											
– Exchange difference on translation of foreign operations	–	–	–	–	1,472	–	–	–	1,472	(5,637)	(4,165)
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	2,091	–	–	2,091	–	2,091
– Income tax relating to change in fair value of available-for-sale financial assets	–	–	–	–	–	(523)	–	–	(523)	–	(523)
Total comprehensive income for the period	–	–	–	–	1,472	1,568	–	33,786	36,826	2,603	39,429
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	16,926	16,926
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(24,348)	(24,348)
At 30 September 2012	210,417	5,199	31,386	4,833	41,455	6,499	(5,054)	411,619	706,354	103,195	809,549
At 1 January 2011	210,417	5,199	23,085	1,482	17,103	8,775	(5,483)	316,652	577,230	83,298	660,528
Profit for the period	–	–	–	–	–	–	–	38,757	38,757	4,694	43,451
Other comprehensive income for the period:											
– Exchange difference on translation of foreign operations	–	–	–	–	22,026	–	–	–	22,026	2,966	24,992
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	(4,698)	–	–	(4,698)	–	(4,698)
– Income tax relating to change in fair value of available-for-sale financial assets	–	–	–	–	–	1,174	–	–	1,174	–	1,174
Total comprehensive income/(loss) for the period	–	–	–	–	22,026	(3,524)	–	38,757	57,259	7,660	64,919
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	7	–	7	(6,447)	(6,440)
Arising on deemed acquisition of non-controlling interests	–	–	–	–	–	–	422	–	422	(422)	–
Dividend for the period	–	–	–	–	–	–	–	(11,769)	(11,769)	–	(11,769)
At 30 September 2011 (Unaudited)	210,417	5,199	23,085	1,482	39,129	5,251	(5,054)	343,640	623,149	84,089	707,238

Notes:

(a) Each Articles of Association of Grand Pharm (China)'s PRC subsidiary requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

(b) According to the document (Cai Qi 2006 No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

(c) Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

Consolidated Statement of Cash Flows

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating activities					
Profit before tax	57,032	200,283	102,759	50,931	43,848
Adjustments for:					
Amortisation of intangible assets	327	330	347	259	264
Amortisation of prepaid lease payments	1,902	2,804	3,536	2,044	5,616
Depreciation of property plant and equipment	11,282	28,391	41,435	30,574	43,180
Dividend income from equity investments	(32)	–	(325)	–	–
Finance costs	7,012	17,633	19,634	10,727	30,697
(Gain)/loss on disposal of property, plant and equipment	(53)	1,526	(3,892)	267	76
Write-off of property plant and equipment	–	–	8,008	2,985	1,358
Gain on bargain purchase	–	(21,631)	–	–	–
Compensation for write-off of property, plant and equipment	–	–	(10,058)	–	–
Loss on disposal of available– for-sales financial assets	187	–	–	–	–
Gain recognised on re-measuring interest in an associate to fair value on business combination date	–	(2,648)	–	–	–
Impairment loss on inventories	292	961	1,297	–	613
Impairment loss on trade and other receivables	838	2,682	2,605	–	2,452
Bank interest income	(421)	(2,824)	(4,364)	(4,005)	(5,001)
Reversal of impairment loss on trade and other receivables	(631)	(200)	(463)	–	–
Share of result of associates	(5,183)	(3,149)	(504)	(391)	(206)
Investment income	–	(32)	(1,865)	–	–
Operating cash flows before movements in working capital	72,552	224,126	158,150	93,391	122,897

Consolidated Statement of Cash Flows (Continued)

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Operating activities					
Operating cash flows before movements in working capital	72,552	224,126	158,150	93,391	122,897
Decrease/(increase) in inventories	9,035	(23,191)	(53,166)	(3,702)	(23,013)
Increase in long term prepayment	–	–	(3,569)	–	–
Increase in loan receivable	–	–	(24,639)	–	(18,505)
(Increase)/decrease in trade and other receivables	(21,055)	35,317	(12,045)	(255,040)	(371,532)
(Decrease)/increase in trade and other payables	(3,937)	(35,356)	(16,264)	75,717	219,624
Net cash generated from/ (used in) operating activities	56,595	200,896	48,467	(89,634)	(70,529)
Income tax paid	(2,350)	(10,302)	(11,032)	(8,860)	(7,872)
Net cash generated from/ (used in) operating activities	54,245	190,594	37,435	(98,494)	(78,401)

Consolidated Statement of Cash Flows (Continued)

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Investing activities					
Purchase of property, plant and equipment	(17,707)	(47,947)	(232,579)	(131,617)	(354,461)
Acquisition of additional interest in associates	(2,954)	–	–	–	–
Acquisition of prepaid lease payment	–	–	(15,483)	–	–
Acquisition of non-controlling interests	–	(27,204)	(6,440)	–	–
Decrease/(increase) in pledged bank deposit	3,171	(40,818)	(19,789)	43,801	59,507
Increase in deposits for acquisition of non-current assets	–	(37,000)	(50,675)	(51,329)	(850)
Increase in non-current prepayments	–	(20,415)	–	(7,173)	(4,954)
(Increase)/decrease in held-to-maturity	–	–	(31,006)	–	11,306
Proceeds from disposal of property, plant and equipment	738	2,405	4,972	–	216
Proceeds from disposal of available-for-sales financial assets	224	–	–	–	–
Bank interest income received	421	2,824	4,364	4,005	5,001
Investment income	–	32	1,865	–	–
Acquisition of available– for-sale financial assets	–	–	(20,216)	(85,287)	–
Dividend income received from available-for-sale financial assets	32	–	325	–	–
Receipts from deferred income	–	83,529	210,659	152,559	–
Net cash outflow from acquisition of subsidiaries	–	(195,226)	(113,625)	–	–
Net cash used in from investing activities	(16,075)	(279,820)	(267,628)	(75,041)	(284,235)

Consolidated Statement of Cash Flows (Continued)

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Financing activities					
Repayments of bank loans	(88,636)	(335,784)	(426,461)	(219,684)	(860,451)
Interest paid	(7,012)	(17,633)	(19,634)	(10,727)	(30,697)
Bank loans raised, net	85,376	545,977	713,199	535,876	1,310,610
Proceeds from capital injection	–	113,727	–	–	–
Dividend paid	(5,641)	–	(11,810)	(11,769)	(24,348)
Net cash (used in)/generated from financing activities	(15,913)	306,287	255,294	293,696	395,114
Net increase in cash and cash equivalents	22,257	217,061	25,101	120,161	32,478
Cash and cash equivalents at beginning of the year/period	37,918	60,175	286,894	286,894	301,470
Effect of foreign exchange rate changes	–	9,658	(10,525)	14,758	(4,749)
Cash and cash equivalents at the end of the year/period	60,175	286,894	301,470	421,813	329,199
Cash and cash equivalents at the end of year/period, representing cash and bank balances	60,175	286,894	301,470	421,813	329,199

The accompanying notes form an integral part of the Financial Information.

NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

Grand Pharm (China) was established in the PRC with limited liability on 24 February 1990 and is principally engaged in the manufacture and sales of pharmaceutical, healthcare and chemical products. The address of the registered office of Grand Pharm (China) is 5 Gutian Road, Qiaokou District, Wuhan City, Hubei Province, the PRC. Grand Pharm (China) is 75.95% owned by China Grand (Hong Kong), 20.26% owned by Wuhan State-Owned Assets Management Limited, 3.39% owned by Wuhan Kai Yuen Ke Ji Chuang Ye Investment Limited, 0.23% owned by San Ming City Yan Qian Zong He Hua Gong Limited and 0.17% owned by Qian Jiang City Qian Sheng State- Owned Assets Management Limited.

Grand Pharm (China) and its subsidiaries 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 Grand Pharm (China).

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), and the functional currency of Grand Pharm (China) is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of immediate holding company of Grand Pharm (China), China Grand Pharmaceutical and Healthcare Holdings Limited are listed on the Stock Exchange of Hong Kong Limited (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")

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes HKFRSs, Hong Kong Accounting Standards ("HKAS") and related interpretations promulgated by the HKICPA. The Financial Information also complies with the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange. The policies of the Grand Pharm (China) Group are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information of the Grand Pharm (China) Group is historical cost convention accounting except for financial assets and financial liabilities have been carried at fair value.

The HKICPA has issued a number of new and revised HKFRSs during the Relevant Period. For the purpose of preparing this Financial Information, the Grand Pharm (China) Group has adopted all these new and revised HKFRSs to the Relevant Period.

At the date of this report, the Grand Pharm (China) Group has not applied the following new or revised standards, amendments and interpretations that have been issued by the HKICPA but are not yet effective, in the Financial Information:

HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 9	Financial Instruments[4]
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]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Presentation of Offsetting Financial Assets and Financial Liabilities[3]
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 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2015, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Grand Pharm (China) Group's financial assets.

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. 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 presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors anticipate that HKFRS 9 that will be adopted in the Grand Pharm (China) Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard may have a significant impact on amounts reported in respect of the Grand Pharm (China) Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets 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 do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Grand Pharm (China) Group's disclosures regarding transfers of trade receivables previously affected. However, if the Grand Pharm (China) Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The directors of Grand Pharm (China) anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Grand Pharm (China) Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Grand Pharm (China) and entities controlled by Grand Pharm (China) (its subsidiaries). Control is achieved where Grand Pharm (China) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Grand Pharm (China) Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Grand Pharm (China) Group's equity therein. Non-controlling interests represent the interests of outside shareholders not held by the Grand Pharm (China) Group in the results and net assets of Grand Pharm (China)'s subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction. Total comprehensive income and expenses of a subsidiary is attributed to the owners of Grand Pharm (China) and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expenses of a subsidiary is attributed to the owners of Grand Pharm (China) and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Grand Pharm (China) Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Grand Pharm (China) Group's ownership interests in existing subsidiaries

Changes in the Grand Pharm (China) Group's ownership interests in subsidiaries that do not result in the Grand Pharm (China) Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of Grand Pharm (China) Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Grand Pharm (China).

When the Grand Pharm (China) Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Grand Pharm (China) Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Grand Pharm (China) Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Grand Pharm (China) Group, liabilities incurred by the Grand Pharm (China) Group to the former owners of the acquiree and the equity interests issued by the Grand Pharm (China) Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Grand Pharm (China) Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non- controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Grand Pharm (China) Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Grand Pharm (China) Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Grand Pharm (China) Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment loss, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Grand Pharm (China) Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Grand Pharm (China) Group's share of the profit or loss and other comprehensive income of the associates. When the Grand Pharm (China) Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Grand Pharm (China) Group's net investment in the associate), the Grand Pharm (China) Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Grand Pharm (China) Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Grand Pharm (China) Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Grand Pharm (China) Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Grand Pharm (China) Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Grand Pharm (China) Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Grand Pharm (China) Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Grand Pharm (China) Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Grand Pharm (China) Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Grand Pharm (China) Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income from investment is recognised when the shareholders' right to receive payment have been established (provided that it is probable that the economic benefits will flow to the Grand Pharm (China) Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Grand Pharm (China) Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services for administrative purposes (other than allocated land and construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than allocated land and construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Grand Pharm (China) Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non- monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Grand Pharm (China) Group's foreign operations are translated into the presentation currency of the Grand Pharm (China) Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Grand Pharm (China) Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Grand Pharm (China) Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Grand Pharm (China) Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Grand Pharm (China) Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Employee benefits

Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Grand Pharm (China) Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Grand Pharm (China) Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probably that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Grand Pharm (China) Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Grand Pharm (China) Group's financial assets are classified into one of the following categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments. The Group designated unlisted debt securities and unlisted and listed equity securities as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in available-for-sale financial assets revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the available-for-sale financial assets revaluation reserve is reclassified to profit and loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Grand Pharm (China) Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the available-for-sale financial assets revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Grand Pharm (China) Group after deducting all of its liabilities. Equity instruments issued by the Grand Pharm (China) Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Grand Pharm (China) are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Grand Pharm (China) Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to the initial recognition, the Grand Pharm (China) Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Grand Pharm (China) Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Grand Pharm (China) Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Grand Pharm (China) Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Grand Pharm (China) Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Grand Pharm (China) Group continues to recognise the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Grand Pharm (China) Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Grand Pharm (China) Group derecognises financial liabilities when, and only when, the Grand Pharm (China) Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Grand Pharm (China) Group has a present obligation as a result of a past event, and it is probable that the Grand Pharm (China) Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation (if appropriate) recognised in accordance with HKAS 18 Revenue.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Grand Pharm (China) Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Grand Pharm (China) Group's accounting policies, which are described in note 3, the directors of Grand Pharm (China) are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for Wuhan Kernel Bio Tech Co., Limited ("Wuhan Kernel") requires the Grand Pharm (China) Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Changes in subjective input assumptions can materially affect the value in use estimate.

As at 31 December 2009, 2010 and 2011 and 30 September 2012, the carrying amount of goodwill are approximately HK$Nil, HK$Nil, HK$17,094,000 and HK$17,277,000 respectively. Details of the recoverable amount calculation are disclosed in note 21.

Estimated useful lives of property, plant and equipment and intangible assets

The Grand Pharm (China) Group has significant property, plant and equipment and intangible assets. The Grand Pharm (China) Group is required to estimate the useful lives of property, plant and equipment and intangible assets in order to ascertain the amount of depreciation and amortisation charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond 10 years.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Grand Pharm (China) Group's strategies. The Grand Pharm (China) Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturns in the Company's stock price. The Grand Pharm (China) Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Impairment of trade and other receivables

The policy for impairment of trade and other receivables of the Grand Pharm (China) Group is based on the evaluation of collectability and ageing analysis of the loans and receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Grand Pharm (China) Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required.

Impairment of inventories

The management of the Grand Pharm (China) Group reviews an ageing analysis at the end of each reporting period, and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Grand Pharm (China) Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

Estimated impairment of assets

At the end of each reporting period, the Grand Pharm (China) Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid lease payments;

– available-for-sale financial assets measured at cost;

– intangible assets;

– investments in subsidiaries and associates; and

– non-current prepayments

If any such indication exists, the asset's recoverable amount is estimated. Impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amounts.

The sources utilised to identify indications of impairment are often subjective in nature and the Grand Pharm (China) Group is required to use judgment in applying such information to its business. The Grand Pharm (China) Group's interpretation of this information has a direct impact on whether impairment assessment is performed as at any given end of reporting period.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Grand Pharm (China) Group to estimate the recoverable amount, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Grand Pharm (China) Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Grand Pharm (China) Group may perform such assessment utilising internal resources or the Grand Pharm (China) Group may engage external advisors to counsel the Grand Pharm (China) Group in making this assessment. Regardless of the resources utilised, the Grand Pharm (China) Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

Estimated amortisation of deferred income

Amortisation of deferred income which is related to the compensation as defined in Note 34 below is recognised in profit or loss on a systematic basis over the periods in which the Grand Pharm (China) Group recognises as expenses the related costs for which the compensation is intended to compensate. The compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the compensation to profit or loss will be deferred until the completion of the Relocation as defined in Note 34.

The management of the Grand Pharm (China) Group reviews the progress of the relocation plan regularly and identify the expenses incurred for the relocation purpose for which appropriate deferred income is estimated and amortised in profit or loss to match with expenses incurred accordingly.

5. CAPITAL RISK MANAGEMENT

The Grand Pharm (China) Group manages its capital to ensure that entities in the Grand Pharm (China) Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Grand Pharm (China) Group's overall strategy remains unchanged from prior year.

The capital structure of the Grand Pharm (China) Group as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012 consists of debt, which includes bank borrowings disclosed in respective notes, cash and cash equivalents and equity attributable to owners of Grand Pharm (China), comprising issued share capital, reserves and retained profits.

The directors of Grand Pharm (China) review the capital structure regularly. As part of this review, the directors of Grand Pharm (China) consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Grand Pharm (China) Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Financial assets				
Available-for-sale financial assets	29,422	35,055	51,737	53,911
Held-to-maturity investment	–	–	31,006	19,744
Loans and receivable (including cash and cash equivalents)				
Amount due from associate	–	–	216	2,520
Loan receivable	–	–	24,639	43,178
Trade and other receivables	85,292	214,291	296,172	587,898
Pledged bank deposit	1,403	42,222	62,011	2,591
Cash and cash equivalents	60,175	286,894	301,470	329,199
	146,870	543,407	684,508	965,386
Financial liabilities at amortised cost				
Other financial liabilities				
Trade and other payables	134,993	245,298	267,629	470,516
Borrowings	92,195	310,588	611,474	1,062,487
	227,188	555,886	879,103	1,533,003

(b) Financial risk management objective and policies

The Grand Pharm (China) Group's major financial instruments include available-for-sale financial assets, held-to-maturity investments, borrowings, trade and other receivables, pledged bank deposits, cash and cash equivalents and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

The Grand Pharm (China) Group's presentation currency is HK$, however, the Grand Pharm (China) Group's and Grand Pharm (China)'s functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables and borrowings are denominated in foreign currencies of United State dollars ("USD") and HK$. Such USD and HK$ denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD and HK$.

The Grand Pharm (China) Group and Grand Pharm (China) currently does not have any USD and HK$ hedging policy but the management monitors USD and HK$ exchange exposure and will consider hedging significant USD and HK$ exposure should the need arise.

Sensitivity analysis

The following table details the Grand Pharm (China) Group's sensitivity to a reasonably possible change of 5% in exchange rate of USD and HK$ against RMB while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at end of each reporting period for a 5% change in foreign currency rates.

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period ended from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in profit for the year/period				
– if USD weakness against of RMB	(327)	(2,025)	6,478	8,377
– if USD strengthens against of RMB	327	2,025	(6,478)	(8,377)
Increase/(decrease) in profit for the year/period				
– if HK$ weakness against of RMB	139	772	–	–
– if HK$ strengthens against of RMB	(139)	(772)	–	–

A change of 5% in exchange rate of USD and HK$ against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the Grand Pharm (China) Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD				
Trade and other receivables	6,246	43,219	89	119,575
Cash and cash equivalents	286	5,115	19,531	96,800
Trade and other payables	–	(7,841)	(1,706)	(1,106)
Borrowings	–	–	(147,482)	(382,812)
HK$				
Trade and other receivables	85	2,332	–	–
Cash and cash equivalents	51	14,651	–	–
Trade and other payables	(2,911)	(2,427)	–	–
Borrowings	–	(30,000)	–	–

(ii) Interest rate risk

The Grand Pharm (China) Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates (see Note 30) and variable-rate borrowings (see Note 32). The Grand Pharm (China) Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Grand Pharm (China) Group has not formulated a policy to manage the interest rate risk.

Interest rate sensitivity

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points basis points at the beginning of the year/period and all other variables were held constant, the Grand Pharm (China) Group's profit after tax and retained profits would increase/decrease by approximately HK$240,000, HK$178,000, HK$99,000 and HK$1,454,000 for the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012 respectively. The assumed changes have no impact on the Grand Pharm (China) Group's other components of equity. This is mainly attributable to the Grand Pharm (China) Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

(iii) Liquidity risk

In the management of the liquidity risk, the Grand Pharm (China) Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Grand Pharm (China) Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 31 December 2009, 2010 and 2011 and 30 September 2012, maximum banking facilities in an aggregate amount of approximately HK$187,000,000, HK$488,000,000, HK$776,000,000 and HK$2,380,900,000 respectively were available from the Grand Pharm (China) Group's principal bankers, of which approximately HK$75,000,000, HK$311,000,000, HK$611,000,000 and HK$106,200,000 respectively has been utilised.

The following table details the Grand Pharm (China) Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Grand Pharm (China) Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

At 30 September 2012

	Total contractual undiscounted cash flow	**Within one year or on demand**	**More than one year but less than two year**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	470,516	470,516	–	470,516
Borrowings	1,121,241	841,314	279,927	1,062,487
	1,591,757	1,311,830	279,927	1,533,003

At 31 December 2011

	Total contractual undiscounted cash flow	**Within one year or on demand**	**More than one year but less than two year**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	267,629	267,629	–	267,629
Borrowings	646,970	607,998	38,972	611,474
	914,599	875,627	38,972	879,103

At 31 December 2010

	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two year *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	245,298	245,298	–	245,298
Borrowings	326,573	284,514	42,059	310,588
	571,871	529,812	42,059	555,886

At 31 December 2009

	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two year *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	134,993	134,993	–	134,993
Borrowings	95,236	70,634	24,602	92,195
	230,229	205,627	24,602	227,188

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(iv) *Credit risk*

Credit risk refers to the risk that trade and other receivables and loan receivables will default on their obligations to repay the amounts owing to the Grand Pharm (China) Group, resulting in a loss to the Grand Pharm (China) Group. The Grand Pharm (China) Group has adopted procedures in extending credit terms to customers/receivable's and in monitoring its credit risk.

The Grand Pharm (China) Group's current credit practices include assessment and valuation of customer's/receivable's credit reliability and periodic review of their financial status to determine credit limits to be granted. As the number of customers/receivables of the Grand Pharm (China) Group exceeds 500, the Grand Pharm (China) Group does not consider there is any concentration of credit risk.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings.

(v) *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The directors consider the fair values of trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables and borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 September 2012

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	12,122	–	–	12,122

At 31 December 2011

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	10,006	–	–	10,006

At 31 December 2010

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	14,450	–	–	14,450

At 31 December 2009

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	9,455	–	–	9,455

There were no transfers between all levels in both year/period.

7. TURNOVER AND SEGMENTS INFORMATION

For the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012, the Grand Pharm (China) 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 Grand Pharm (China) Group, reviews the operating results of the Grand Pharm (China) Group as a whole to make decisions about resource allocation. The operation of the Grand Pharm (China) Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

	Revenue from external customers				
	For the year ended 31 December 2009	**For the year ended 31 December 2010**	**For the year ended 31 December 2011**	**For the period from 1 January 2011 to 30 September 2011**	**For the period from 1 January 2012 to 30 September 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
The PRC	422,256	866,349	1,109,392	822,121	999,699
America	49,325	55,269	85,755	72,172	160,481
Europe	25,111	30,273	102,053	52,999	117,764
Asia other than the PRC	41,917	52,283	91,129	139,778	148,675
Others	6,826	10,469	35,310	8,476	6,879
Total	545,435	1,014,643	1,423,639	1,095,546	1,433,498

	Non-current assets			
	At 31 December 2009	**At 31 December 2010**	**At 31 December 2011**	**At 30 September 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	264,217	610,901	1,037,006	1,352,354

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

Information about major customers

For the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012, none of the Grand Pharm (China) Group's sales to a single customer amounted to 10% or more of the Grand Pharm (China) Group's total revenue.

8. OTHER INCOME

	For the year ended 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000	For the period from 1 January 2011 to 30 September 2011 HK$'000 (Unaudited)	For the period from 1 January 2012 to 30 September 2012 HK$'000
Government grants *(Note (a))*	3,475	122,482	48,146	5,516	19,554
Bank interest income	421	2,824	4,364	4,005	5,001
Sales of raw materials, scrap and other materials, net	1,216	7,812	3,801	2,686	4,571
Gain on disposal of property, plant and equipment	53	–	3,892	–	–
Compensation for loss of property, plant and equipment *(Note (b))*	–	–	10,058	–	–
Investment income	–	32	1,865	–	373
Rental income	682	969	783	655	457
Reversal of impairment loss on trade and other receivables *(Note 28)*	631	200	463	–	–
Dividend income from available-for-sale financial assets	32	–	325	–	–
Gain recognised on re-measuring interest in an associate to fair value on business combination date	–	2,648	–	–	–
Others	1,109	2,790	3,016	625	3,995
Total	7,619	139,757	76,713	13,487	33,951

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 Grand Pharm (China) Group from the 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in the PRC for fulfillment of certain condition regarding the initiative of the relocation of the production facilities in Wuhan. Further details are included in Note 34.

During the nine months ended 30 September 2012 and years ended 31 December 2011, 2010 and 2009, government grants of approximately HK$19,554,000, HK$48,146,000, HK$7,539,000 and HK$3,475,000 respectively have been received by the Grand Pharm (China) 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 Grand Pharm (China) 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 2011.

9. OTHER OPERATING EXPENSES

	For the year ended 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000	For the period from 1 January 2011 to 30 September 2011 HK$'000 (Unaudited)	For the period from 1 January 2012 to 30 September 2012 HK$'000
Amortisation of intangible assets	327	330	347	259	264

10. FINANCE COSTS

	For the year ended 31 December 2009 *HK$'000*	For the year ended 31 December 2010 *HK$'000*	For the year ended 31 December 2011 *HK$'000*	For the period from 1 January 2011 to 30 September 2011 *HK$'000* (Unaudited)	For the period from 1 January 2012 to 30 September 2012 *HK$'000*
Interests on bank loans wholly repayable within five years	6,812	17,442	19,634	10,727	30,697
Interest on discounted bills receivable with recourse	200	191	–	–	–
	7,012	17,633	19,634	10,727	30,697

11. INCOME TAX EXPENSES

	For the year ended 31 December 2009 *HK$'000*	For the year ended 31 December 2010 *HK$'000*	For the year ended 31 December 2011 *HK$'000*	For the period from 1 January 2011 to 30 September 2011 *HK$'000* (Unaudited)	For the period from 1 January 2012 to 30 September 2012 *HK$'000*
Current tax:					
The PRC	8,313	7,968	14,402	8,027	2,790
Deferred tax *(Note 33)*	–	(1,905)	(2,057)	(547)	(968)
	8,313	6,063	12,345	7,480	1,822

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 the 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/period can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before taxation	57,032	200,283	102,759	50,391	43,848
Tax at domestic income tax rate	14,258	50,071	25,689	12,597	10,962
Tax effect of share of profit of associates	(1,295)	(787)	(126)	(98)	(95)
Tax effect of expenses not deductible for tax purpose	4,476	3,189	12,221	1,599	5,328
Tax effect of income not taxable for tax purpose	(936)	(36,961)	(6,187)	(1,041)	(1,907)
Utilisation of deductible temporary differences previously not recognised	–	300	2,746	5,038	1,977
Effect of tax exemption granted to PRC subsidiaries	–	(2,264)	(5,778)	(5,112)	(12,501)
Income tax on concessionary rate	(8,269)	(5,131)	(8,350)	(4,956)	(6,037)
Tax effect of tax losses not recognised	79	–	–	–	5,063
Utilisation of tax losses previously not recognised	–	(2,354)	(7,870)	(547)	(968)
Tax charge for the year/period	8,313	6,063	12,345	7,480	1,822

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

12. PROFIT FOR THE YEAR/PERIOD

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period is stated after charging (crediting):					
Staff costs (excluding directors' emoluments) comprises:					
– wages and salaries	45,309	96,784	180,743	100,684	208,439
– retirement benefits schemes contributions	5,373	6,851	13,323	11,442	13,880
	50,682	103,635	194,066	112,126	222,319

	For the year ended 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000	For the period from 1 January 2011 to 30 September 2011 HK$'000 (Unaudited)	For the period from 1 January 2012 to 30 September 2012 HK$'000
Depreciation of property, plant and equipment	11,282	28,391	41,435	30,574	43,180
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	1,902	2,804	3,536	2,044	5,616
Amortisation of intangible assets (included in other operating expenses)	327	330	347	259	264
Total depreciation and amortisation	13,511	31,525	45,318	32,877	49,060
Auditors' remuneration					
– audit services	–	–	–	–	–
– non-audit services	–	–	–	–	–
	–	–	–	–	–
Cost of inventories recognised as an expense	295,341	647,773	959,569	730,043	958,564
Operating leases rentals in respect of land and buildings	1,875	2,812	3,304	2,327	4,225
(Gain)/loss on disposal of property, plant and equipment	(53)	1,526	(3,892)	267	76
Write-off of property, plant and equipment	–	–	8,008	–	–
Impairment loss on inventories	292	961	1,297	–	613
Loss on disposal of available-for-sale financial assets	187	–	–	–	–
Impairment loss on financial assets					
– trade and other receivables	838	2,682	2,605	–	2,452
– reversal of impairment loss on trade and other receivables	(631)	(200)	(463)	–	–
Impairment losses on financial assets, net	207	2,482	2,142	–	2,452
Net foreign exchange losses	1,011	3,762	8,252	6,068	610

13. DIVIDEND

During year ended 31 December 2009, dividend of approximately HK$5,642,000 (equivalents to RMB4,964,000) was paid to the shareholders of Grand Pharm (China).

No dividend was paid or proposed during year ended 31 December 2010.

During year ended 31 December 2011, dividend of approximately HK$11,810,000 (equivalents to RMB9,805,000) was paid to the shareholders of Grand Pharm (China).

No dividend was paid or proposed during nine months ended 30 September 2012.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Fees	–	–	–	–	–
Other emoluments					
Salaries and allowances	1,059	1,520	4,149	2,211	2,357
Retirement benefits scheme contributions	7	17	32	25	75
	1,066	1,537	4,181	2,236	2,432

No emoluments were paid by the Grand Pharm (China) Group to the directors as an inducement to join, or upon joining the Grand Pharm (China) Group, or as compensation for loss of office for the years ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2011 (unaudited) and 2012.

The emoluments paid or payable to each of the seven directors for the nine months ended 30 September 2012 were as follows:

	Fee	Salaries and allowances	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liu Chengwei	–	–	–	–
Xie Guofan	–	553	23	576
Shi Xiaofeng	–	857	29	886
Zhang Bangguo	–	947	23	970
Chen Yegao	–	–	–	–
Zhang Peiyuan	–	–	–	–
Wang Ke	–	–	–	–
	–	2,357	75	2,432

The emoluments paid or payable to each of the eight directors for the nine months ended 30 September 2011 (unaudited) were as follows:

	Fee *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Liu Chengwei	–	–	–	–
Xie Guofan	–	626	8	634
Shi Xiaofeng	–	736	9	745
Zhang Bangguo	–	849	8	857
Chen Yegao (appointed on 3 March 2011)	–	–	–	–
Tang Jun (resigned on 3 March 2011)	–	–	–	–
Zhang Peiyuan	–	–	–	–
Wang Ke	–	–	–	–
	–	2,211	25	2,236

The emoluments paid or payable to each of the eight directors for the year ended 31 December 2011 were as follows:

	Fee *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Liu Chengwei	–	–	–	–
Xie Guofan	–	1,053	10	1,063
Shi Xiaofeng	–	1,734	13	1,747
Zhang Bangguo	–	1,362	9	1,371
Chen Yegao (appointed on 3 March 2011)	–	–	–	–
Tang Jun (resigned on 3 March 2011)	–	–	–	–
Zhang Peiyuan	–	–	–	–
Wang Ke	–	–	–	–
	–	4,149	32	4,181

The emoluments paid or payable to each of the nine directors for the year ended 31 December 2010 were as follows:

	Fee *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Liu Chengwei	–	–	–	–
Xie Guofan	–	539	9	548
Shi Xiaofeng	–	242	–	242
Zhang Bangguo (appointed on 1 June 2010)	–	739	8	747
Wang Xianbian (resigned on 1 June 2010)	–	–	–	–
Tang Jun (appointed on 1 June 2010)	–	–	–	–
Zhou Jiangzhong (resigned on 1 June 2010)	–	–	–	–
Zhang Peiyuan	–	–	–	–
Wang Ke	–	–	–	–
	–	1,520	17	1,537

The emoluments paid or payable to each of the seven directors for the year ended 31 December 2009 were as follows:

	Fee	Salaries and allowances	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liu Chengwei	–	–	–	–
Xie Guofan	–	383	7	390
Shi Xiaofeng	–	307	–	307
Wang Xianbian	–	–	–	–
Zhou Jiangzhong	–	369	–	369
Zhang Peiyuan	–	–	–	–
Wang Ke	–	–	–	–
	–	1,059	7	1,066

For the years ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2011 (unaudited) and 2012, no emoluments were paid by the Grand Pharm (China) Group to the directors as an inducement to join or upon joining the Grand Pharm (China) Group or as compensation for loss of office.

(b) Five highest emoluments individual

No. of people within five highest emoluments:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011 (Unaudited)	For the period from 1 January 2012 to 30 September 2012
Directors	3	3	3	3	3
Employees	2	2	2	2	2
	5	5	5	5	5

The emoluments of the employees within five highest emoluments:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011 (Unaudited)	For the period from 1 January 2012 to 30 September 2012
Salaries and allowances	1,785	2,329	5,407	3,189	3,112
Retirement benefit scheme contributions	17	24	43	34	105
	1,802	2,353	5,450	3,223	3,217

Their emoluments were within the followings bands:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011 (Unaudited)	For the period from 1 January 2012 to 30 September 2012
HK$nil to HK$1,000,000	2	2	2	2	2

For the years ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2011 (unaudited) and 2012, no emoluments were paid by the Grand Pharm (China) Group to the five highest paid individuals as an inducement to join or upon joining the Grand Pharm (China) Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Equipment	Others	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2009	53,630	62,127	4,322	4,431	412	13,408	138,330
Addition	826	7,037	4,568	444	–	4,832	17,707
Disposals	–	(109)	(888)	(12)	–	–	(1,009)
Transfer	12,129	3,216	–	–	–	(15,345)	–
At 31 December 2009 and at 1 January 2010	66,585	72,271	8,002	4,863	412	2,895	155,028
Addition	15,545	14,437	1,518	2,319	–	14,128	47,947
Acquired on acquisition of subsidiaries	131,647	108,647	2,434	2,537	–	7,647	252,912
Disposals	(494)	(479)	(332)	(107)	–	(3,142)	(4,554)
Transfer	1,269	3,755	–	26	–	(5,050)	–
Exchange realignment	5,842	5,460	362	290	–	404	12,358
At 31 December 2010 and at 1 January 2011	220,394	204,091	11,984	9,928	412	16,882	463,691
Addition	827	21,517	3,441	5,117	–	201,677	232,579
Acquired on acquisition of subsidiaries	20,967	5,996	1,828	359	–	2,905	32,055
Disposals	(1,088)	(1,502)	(205)	(796)	–	–	(3,591)
Write-off	(5,701)	(7,819)	–	–	–	–	(13,520)
Transfer	18,690	29,658	–	501	–	(48,849)	–
Exchange realignment	10,865	9,221	661	586	–	4,365	25,698
At 31 December 2011 and at 1 January 2012	264,954	261,162	17,709	15,695	412	176,980	736,912
Addition	1,813	18,528	4,992	1,998	–	327,130	354,461
Disposals	–	(1,273)	(472)	–	–	–	(1,745)
Write-off	–	(429)	(3,228)	–	–	–	(3,657)
Transfer	68,154	127,445	–	13,153	–	(208,752)	–
Exchange realignment	369	365	25	22	–	250	1,031
At 30 September 2012	335,290	405,798	19,026	30,868	412	295,608	1,087,002
Accumulated depreciation and impairment							
At 1 January 2009	1,735	2,269	156	1,521	412	–	6,093
Depreciation provided for the year	3,998	5,854	536	894	–	–	11,282
Eliminated on disposal/write-off	–	(75)	(246)	(3)	–	–	(324)
At 31 December 2009 and at 1 January 2010	5,733	8,048	446	2,412	412	–	17,051

	Buildings	Plant and machinery	Motor vehicles	Equipment	Others	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment							
At 31 December 2009 and at 1 January 2010	5,733	8,048	446	2,412	412	–	17,051
Depreciation provided for the year	7,872	17,707	1,451	1,361	–	–	28,391
Eliminated on disposal	(86)	(427)	(39)	(70)	–	–	(622)
Exchange realignment	404	702	50	121	–	–	1,277
At 31 December 2010 and at 1 January 2011	13,923	26,030	1,908	3,824	412	–	46,097
Depreciation provided for the year	11,771	25,521	1,754	2,389	–	–	41,435
Eliminated on disposal	(598)	(1,306)	(161)	(446)	–	–	(2,511)
Eliminated on write-off	(1,509)	(4,002)	–	–	–	–	(5,511)
Exchange realignment	858	1,451	123	224	–	–	2,656
At 31 December 2011 and at 1 January 2012	24,445	47,694	3,624	5,991	412	–	82,166
Depreciation provided for the period	10,834	27,755	1,559	3,032	–	–	43,180
Eliminated on disposal	–	(1,195)	(474)	–	–	–	(1,669)
Eliminated on write-off	–	(288)	(2,012)	–	–	–	(2,300)
Exchange realignment	103	234	1	28	–	–	366
At 30 September 2012	35,382	74,200	2,698	9,051	412	–	121,743
Carrying values							
At 30 September 2012	299,908	331,598	16,328	21,817	–	295,608	965,259
At 31 December 2011	240,509	213,468	14,085	9,704	–	176,980	654,746
At 31 December 2010	206,471	178,061	10,076	6,104	–	16,882	417,594
At 31 December 2009	60,852	64,223	7,556	2,451	–	2,895	137,977

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 20%
Motor vehicles	10% – 20%
Others	12.5% – 20%

Buildings are held in the PRC under medium-term leases.

Certain buildings in the Grand Pharm (China) Group have been pledged to banks to secure general bank loans granted to the Grand Pharm (China) Group as further detailed in Note 39.

16. PREPAID LEASE PAYMENTS

The Grand Pharm (China) Group's prepaid lease payments is held under the medium-term leases in the PRC:

	For the year ended 31 December 2009 *HK$'000*	For the year ended 31 December 2010 *HK$'000*	For the year ended 31 December 2011 *HK$'000*	For the period from 1 January 2012 to 30 September 2012 *HK$'000*
At the beginning of the year/period	83,909	82,007	133,129	257,895
Arising on acquisition of subsidiaries	–	49,919	80,325	–
Additions	–	–	40,121	51,729
Amortisation for the year/period	(1,902)	(2,804)	(3,536)	(5,616)
Exchange realignment	–	4,007	7,856	325
At the end of the year/period	82,007	133,129	257,895	304,333

	As at 31 December 2009 *HK$'000*	As at 31 December 2010 *HK$'000*	As at 31 December 2011 *HK$'000*	As at 30 September 2012 *HK$'000*
Analysed for reporting purpose as:				
Current assets	1,901	3,271	6,115	5,964
Non-current assets	80,106	129,858	251,780	298,369
	82,007	133,129	257,895	304,333

Certain leasehold land of the Grand Pharm (China) Group has been pledged to banks to secure bank loans granted to the Grand Pharm (China) Group as detailed in Note 39.

17. INTERESTS IN SUBSIDIARIES

	As at 31 December 2009 *HK$'000*	As at 31 December 2010 *HK$'000*	As at 31 December 2011 *HK$'000*	As at 30 September 2012 *HK$'000*
Unlisted share, at cost	61,157	308,759	499,815	518,128

The followings is a list of principal subsidiaries of Grand Pharm (China):

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held At 31 December 2009	2010	2011	At 30 September 2012	Particulars of paid-up capital	Principal activities
Wuhan Wuyao	PRC/PRC	Limited liability company	98.71%	98.71%	99.34%	99.34%	30 September 2012: RMB61,000,000 31 December 2011: RMB61,000,000 31 December 2010: RMB31,000,000 31 December 2009: RMB31,000,000	Production and sale of pharmaceutical raw material and chemical and export of self-made products and related technologies
Wuhan Grand Hoyo	PRC/PRC	Limited liability company	56%	56%	62.4%	62.4%	30 September 2012: RMB60,000,000 31 December 2011: RMB50,000,000 31 December 2010: RMB50,000,000 31 December 2009: RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi	PRC/PRC	Limited liability company	–	82.42%	82.42%	82.42%	30 September 2012: RMB38,990,000 31 December 2011: RMB38,990,000 31 December 2010: RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Ruizhu	PRC/PRC	Limited liability Company	–	100%	100%	100%	30 September 2012: RMB114,000,000 31 December 2011: RMB114,000,000 31 December 2010: RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Wuhan Kernel	PRC/PRC	Limited liability company	–	–	81.03%	81.03%	30 September 2012: RMB57,368,880 31 December 2011: RMB57,368,880	Research and development production and sale ofbio-pesticides and additives

18. INTERESTS IN ASSOCIATES

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of unlisted investments	38,408	1,153	3,671	3,546
Share of post acquisition and other comprehensive income	6,474	3,923	4,582	4,926
	44,882	5,076	8,253	8,472
Amount due from associates	–	–	216	404
	44,882	5,076	8,469	8,876

Amount due from an associate is unsecured, interest-free and not repayable within next twelve months.

The summarised financial information in respect of the Grand Pharm (China) Group's associates is set out below:

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	86,948	15,428	25,672	24,727
Total liabilities	(7,927)	(5,069)	(8,927)	(7,529)
Net assets	79,021	10,359	16,745	17,198
Grand Pharm (China) Group's share of net assets of associates	44,882	5,076	8,253	8,472

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	148,006	59,863	29,644	19,062
Profit for the year/period	9,576	5,756	1,031	424
Grand Pharm (China) Group's share of profits of associates for the year/period	5,183	3,149	504	206

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed securities				
– Listed equity securities in the PRC at fair value	9,455	14,450	10,006	12,122
Unlisted securities				
– Unlisted debt securities, at cost	93	–	–	–
– Unlisted equity securities, at cost	19,874	20,605	41,731	41,789
	29,422	35,055	51,737	53,911

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of Grand Pharm (China) are of the opinion that their fair values cannot be measured reliably.

20. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Purchase of land use rights *(Note (a))*	–	30,624	59,378	7,784
Purchase of land use rights and a building *(Note (b))*	–	–	3,659	3,664
Acquisition of additional interests in a subsidiaries *(Note (c))*	–	6,376	–	–
Purchase of plant and machineries	–	–	–	798
	–	37,000	63,037	12,246

Note:

(a) On 15 October 2010, Grand Pharm (China) (formerly known as Wuhan Grand Pharmaceutical Group Company Limited) entered into an agreement with the relevant government authority to acquire land use right of a piece of land located in the PRC. The total consideration of the land use right amounting to RMB28,200,000 in which RMB20,000,000 (As at 31 December 2010 equivalent to approximately HK$23,529,000) was paid by Grand Pharm (China) as deposits. The land use right was obtained by Grand Pharm (China) during the year ended 31 December 2011.

On 22 December 2010, Hubei Fuchi paid RMB6,030,000 (As at 31 December 2010 equivalent to approximately HK$7,095,000) (As at 31 December 2011 equivalent to approximately HK$7,429,000) (As at 30 September 2012, equivalent to approximately HK$7,439,000) to the relevant government authority for the purpose of amending the usage of certain government allocated lands as industrial lands. During the year ended 31 December 2011, additional amounts of RMB280,000 (As at 31 December 2011 equivalent to approximately HK$344,000) (As at 30 September 2012, equivalent to approximately HK$345,000) was incurred for the lands. The Grand Pharm (China) Group was in the process of obtaining the updated land use right certificates with revised usage.

On 28 April 2011, Wuhan Wuyao entered into another agreement with 陽新縣國土資源局 to acquire another land use rights of two pieces of land located in the PRC. The total consideration of the land use right amounting to RMB41,890,000 (equivalent to approximately HK$51,605,000) which was fully paid by Wuhan Wuyao during the year. As at 31 December 2011, the Grand Pharm (China) Group was in the progress of obtaining the land use right certificates. The land use right was obtained by the Grand Pharm (China) Group during the nine months ended 30 September 2012.

(b) During year ended 31 December 2011, Wuhan Grand Hoyo, a subsidiary of the Grand Pharm (China) Group entered into an agreement with an independent third party to acquire land and a building amounted to RMB3,300,000 (equivalent to approximately HK$4,066,000) in which RMB2,970,000 (As at 31 December 2011 equivalent to approximately HK$3,659,000) (As at 30 September 2012 equivalent to approximately HK$3,664,000) was paid by Wuhan Grand Hoyo as deposits. The Grand Pharm (China) Group was in the progress of obtaining the land use right and building certificates.

(c) On 27 December 2010, Grand Pharm (China) entered into an agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) ("Wuhan Donghu") to acquire a 6.4% equity interest in Wuhan Grand Hoyo with a consideration of RMB5,420,000 (As at 31 December 2010 equivalent to approximately HK$6,376,000) and a deposit for the amount was paid before 31 December 2010. The acquisition has been completed during the current year ended 31 December 2011.

21. GOODWILL

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	–	–	–	17,094
Arising on acquisition of subsidiaries	–	–	17,094	–
Exchange realignment	–	–	–	183
At the end of the year/period	–	–	17,094	17,277

Note:

The above goodwill is acquired through business combination during the year ended 31 December 2011. Goodwill acquired in a business combination is allocated, on acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The management considers the subsidiaries acquired during 2011 represent one CGUs for the purpose of goodwill impairment testing.

During the year ended 31 December 2011, the Grand Pharm (China) Group acquired 81.0263% equity interest in Wuhan Kernel from Wuhan Optics Valley Union Company Limited ("Wuhan Optics") with a goodwill of approximately of HK$17,094,000. Details are set out in Note 37. The recoverable amount of the CGU is determined from value-in-use calculations. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and the discount rate of 15% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum.

Changes in selling prices and direct costs for the above cash flow projections for the year ended 31 December 2011 and nine months ended 30 September 2012 are based on past practices and expectations of future changes in the market. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Wuhan Kernel to exceed its aggregate recoverable amounts.

Impairment of goodwill

The directors of the Company consider that the goodwill has been allocated to one CGU, manufacture and sales of pharmaceutical, healthcare and chemical products for impairment testing purpose.

The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period.

Cash flows projections during the budget periods are based on the same expected gross margins and raw materials inflation throughout the budget periods. The cash flows beyond that five-year period using zero growth rates.

Other key assumption used in the cash flow projections are as follows:

	For the year ended 31 December 2011	**For the period from 1 January 2012 to 30 September 2012**
Discount rate per annum	15%	12%

The directors believe that any reasonably change in key assumptions on which recoverable amount is based would not cause carrying amount of CGU to the aggregate its recoverable amount.

22. INTANGIBLE ASSETS

	Acquired patent rights *HK$'000* *(note (a))*	Acquired exclusive distribution rights *HK$'000* *(note (b))*	Total *HK$'000*
Cost			
At 1 January 2009, 31 December 2009 and 1 January 2010	1,742	14,000	15,742
Written-off	–	(14,000)	(14,000)
Exchange realignment	62	–	62
At 31 December 2010 and 1 January 2011	1,804	–	1,804
Exchange realignment	84	–	84
At 31 December 2011 and 1 January 2012	1,888	–	1,888
Exchange realignment	3	–	3
At 30 September 2012	1,891	–	1,891
Accumulated amortisation and impairment			
At 1 January 2009	163	14,000	14,163
Provide for the year	327	–	327
At 31 December 2009 and 1 January 2010	490	14,000	14,490
Provide for the year	330	–	330
Written-off	–	(14,000)	(14,000)
Exchange realignment	26	–	26
At 31 December 2010 and 1 January 2011	846	–	846
Provide for the year	347	–	347
Exchange realignment	46	–	46
At 31 December 2011 and 1 January 2012	1,239	–	1,239
Provide for the period	266	–	266
Exchange realignment	2	–	2
At 30 September 2012	1,507	–	1,507
Carrying value			
At 30 September 2012	384	–	384
At 31 December 2011	649	–	649
At 31 December 2010	958	–	958
At 31 December 2009	1,252	–	1,252

The economic useful lives of recognised intangible assets are as follows:

Intangible assets	**Useful economic life**
Acquired patent rights	5.5 years
Acquired exclusive distribution right	10 years

Note:

(a) During the year ended 31 December 2008, the Grand Pharm (China) Group acquired the patent rights of eye drops from Long Smart Investments Limited ("Long Smart"), a wholly-owned subsidiary of Outwit.

(b) In August 2005, the Grand Pharm (China) Group entered into an agreement with a third party to acquire a subsidiary, Seapearl Trading Limited ("Seapearl"), at a consideration of HK$14,000,000. This subsidiary had an exclusive license for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by an independent third party in any parts of the world other than the PRC. The value of the acquired distribution rights was amortised on the straight-line basis over 10 years. For the year ended 31 December 2010, Seapearl was deregistered and thus the relevant exclusive license was written off.

Impairment testing on intangible assets

The directors had reviewed the carrying value of the Grand Pharm (China) Group's acquired patent rights as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012. The directors assess the impairment with reference to the estimated recoverable amount based on the higher of cash flow forecast from future use and the disposal value, and the estimated recoverable amount of the intangible assets was approximately HK$1,252,000, HK$958,000, HK$1,487,000 and HK$1,105,000 as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012 respectively. The discount rate in measuring the amount of value in use was 6%, 15%, 11% and 15% in relation to patent rights as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012 respectively. Accordingly, no impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012.

23. DEFERRED TAX ASSETS

	Impairment loss on trade and other receivables *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2009, 31 December 2009 and 1 January 2010	–	–	–
Arising on acquisition of subsidiaries	–	2,138	2,138
Exchange realignment	–	50	50
At 31 December 2010 and 1 January 2011	–	2,188	2,188
Arising on acquisition of a subsidiary	1,285	–	1,285
Exchange realignment	13	103	116
At 31 December 2011 and 1 January 2012	1,298	2,291	3,589
Exchange realignment	2	3	5
At 30 September 2012	1,300	2,294	3,594

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012, the Grand Pharm (China) Group has unused tax losses of approximately HK$316,000, HK$55,606,000, HK$26,786,000 and HK$45,756,000 respectively available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$nil, HK$8,752,000, HK$9,164,000 and HK$9,176,000 of such losses. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$316,000, HK$46,854,000, HK$17,622,000 and HK$36,580,000 due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination.

24. PREPAYMENTS

The amount represented prepayment which were, of RMB17,352,000 (equivalent to approximately HK$20,415,000), RMB19,469,000 (equivalent to approximately HK$23,984,000) and RMB23,484,000 (equivalent to approximately HK$28,971,000) which were paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Grand Pharm (China) Group and those pharmaceutical institutes as at 31 December 2010, 2011 and 30 September 2012 respectively.

25. LOANS RECEIVABLE

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion	–	–	7,392	22,206
Non-current portion	–	–	17,247	20,972
	–	–	24,639	43,178

During the year ended 31 December 2011, Grand Pharm (China) entered into two agreements with 陽新縣財政局國庫科 from which unsecured loans of RMB20,000,000 were lent to 陽新縣財政局國庫科 for 3 years at the 1-year benchmark bank loan interest rate quoted by the People's Bank of China without security. During the period ended 30 September 2012, Grand Pharm (China) entered into an agreement with 陽新縣財政局國庫科 from which unsecured loans of RMB15,000,000 were lent to 陽新縣財政局國庫科 for 3 years at the 1-year benchmark bank loan interest rate quoted by the People's Bank of China without security. The loan was lent to the PRC government body for compensation paid to people originally resided on the land. Details are set out in Note 20 above.

The amount is neither past due nor impaired for whom there was no recent history of default.

The effective interest rates on the Grand Pharm (China) Group's loan receivables are 4.51%.

26. INVENTORIES

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw material	11,744	59,296	73,754	84,617
Work-in-progress	17,472	38,601	51,805	67,460
Finished goods	27,897	64,737	110,424	106,929
	57,113	162,634	235,983	259,006
Less: impairment loss	(2,145)	(3,106)	(4,403)	(5,026)
	54,968	159,528	231,580	253,980

27. HELD-TO-MATURITY INVESTMENTS

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Debentures	–	–	31,006	19,744

The Grand Pharm (China) Group hold debentures issued from its holding company, China Grand Pharmaceutical and Healthcare Holdings Limited. The debentures carry at fixed rate at 6.56% per annum, and expire at 21 December 2012. None of these debentures are past due or impaired at the end of reporting period.

28. TRADE AND OTHER RECEIVABLES

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Trade receivables, net	30,306	80,220	135,278	391,769
Bills receivables	21,821	86,380	92,119	49,413
Discounted bills receivables	17,195	–	–	–
Other receivables, deposits and prepayments	21,451	57,098	96,034	171,881
Less: impairment loss on other receivables	(5,481)	(9,407)	(27,259)	(23,055)
	85,292	214,291	296,172	590,008

The Grand Pharm (China) Group allows a credit period of 30 – 90 days to its trade customers. The Grand Pharm (China) 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.

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Within 90 days	29,252	73,971	101,592	332,946
91 – 180 days	2,999	8,161	24,293	45,326
181 – 365 days	39	1,743	11,630	16,390
Over 365 days	27,777	30,249	17,885	19,482
	60,067	114,124	155,400	414,144
Less: Accumulated impairment	(29,761)	(33,904)	(20,122)	(22,375)
	30,306	80,220	135,278	391,769

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Grand Pharm (China) 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.

Included in the Grand Pharm (China) Group's trade receivables are amount due from the Grand Pharm (China) Group's associate of approximately HK$nil, HK$nil, HK$815,000 and HK$nil as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012 respectively, which are repayable on similar credit terms to those offered to the major customers of the Grand Pharm (China) Group.

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

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	35,400	29,761	33,904	20,122
Arising on acquisition of subsidiaries	–	5,775	6,433	–
Impairment loss recognised	701	1,961	2,545	2,452
Impairment loss reversed	(589)	(84)	(420)	–
Amount written off as uncollectible	(5,751)	(5,416)	(24,568)	(242)
Exchange realignment	–	1,907	2,228	43
At the end of the year/period	29,761	33,904	20,122	22,375

At the end of each reporting period, the Grand Pharm (China) 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:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	5,389	5,481	9,407	27,259
Arising on acquisition of subsidiaries	–	3,019	16,907	–
Impairment loss reversed	(42)	(116)	(43)	–
Amount written off as uncollectible	(3)	–	285	(4,977)
Impairment loss recognised on other receivables	137	721	60	–
Exchange realignment	–	302	643	773
At the end of the year/period	5,481	9,407	27,259	23,055

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

Included in the Grand Pharm (China) Group's trade receivable balances are balances with aggregate carrying amount of approximately HK$4,417,000, HK$9,894,000, HK$34,404,000 and HK$61,105,000 as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012 respectively which was past due as at the reporting date for which the Grand Pharm (China) Group has not provided for impairment loss. The average age of these receivables is approximately 100 days, 119 days, 121 days and 125 days for the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012.

Ageing of trade receivables which are past due but not impaired

	At 31 December 2009	**At 31 December 2010**	**At 31 December 2011**	**At 30 September 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 90 days	3,577	7,747	23,095	42,920
91 – 180 days	840	1,658	11,080	15,549
181 – 365 days	–	489	229	2,636
	4,417	9,894	34,404	61,105

29. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary is unsecured, interest free and recoverable on demand.

30. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

The Grand Pharm (China) Group's bank balances and cash and pledged bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	At 31 December 2009	**At 31 December 2010**	**At 31 December 2011**	**At 30 September 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$'000	1	1	1	1
USD'000	285	766	1,539	96,800

Pledged bank deposits and bank balances and cash carry interest at the prevailing market interest rates.

Pledged bank deposits represent deposits pledged to bank to secure the issuance of bills payable to certain subsidiaries and therefore are classified as current assets.

31. TRADE AND OTHER PAYABLES

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Trade payables	42,316	74,556	91,917	149,669
Bills payables	21,035	24,924	38,922	84,996
Accrued charges and other creditors	71,642	145,818	136,790	235,851
	134,993	245,298	267,629	470,516

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

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Within 90 days	24,624	62,638	64,281	107,000
Over 90 days	17,692	11,918	27,636	42,669
	42,316	74,556	91,917	149,669

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

The bills payables are matured within six months from the end of the reporting periods.

32. BORROWINGS

	At 31 December 2009 HK$'000	At 31 December 2010 HK$'000	At 31 December 2011 HK$'000	At 30 September 2012 HK$'000
Bank borrowings	92,195	310,588	611,474	1,062,487
Carrying amount repayable:				
On demand or within one year	69,468	270,588	574,640	797,457
More than one year but not exceeding two years	22,727	40,000	36,834	265,030
	92,195	310,588	611,474	1,062,487
USD bank borrowings	–	–	73,741	382,812
RMB bank borrowings	92,195	310,588	537,733	679,675
	92,195	310,588	611,474	1,062,487

As at 31 December 2009, all bank borrowings are secured by buildings and interests in leasehold land held for own use under operating lease of the Grand Pharm (China) Group in the PRC as detailed in Note 39, which are granted by banks in the PRC. Theses bank borrowings bear variable interests rates ranging from 5.31% to 5.58% per annum.

As at 31 December 2010, certain bank borrowings are guaranteed by an independent third party and secured by the buildings and prepaid lease payments of the Grand Pharm (China) Group in the PRC as detailed in Note 39 and assets owned by a non-controlling interests and independent third parties. All bank borrowings are granted by banks in the PRC. All bank borrowings bear variable interest rates ranging from 2.56% to 5.56%.

As at 31 December 2011, certain bank borrowings are guaranteed by China Grand Enterprises Incorporation ("China Grand"), a related company with common director of the Company, and secured by the buildings, prepaid lease payments and bank deposits of the Grand Pharm (China) Group in the PRC as detailed in Note 39 and independent third parties. All the bank borrowings are granted by banks in the PRC, Japan, Macau and Hong Kong. Except for the bank borrowings of HK$391,135,000 that was charged at fixed interest rates ranging from of 2.5% to 6.71% per annum, all other bank borrowings bear variable interest rates from 3.7% to 7.22% per annum.

As at 30 September 2012, certain bank borrowings are guaranteed by China Grand, and secured by the buildings, prepaid lease payments and bank deposits of the Grand Pharm (China) Group in the PRC as detailed in Note 39 and independent third parties. All the bank borrowings are granted by banks in the PRC, Japan, Macau and Hong Kong. Except for the bank borrowings of HK$493,758,000 that was charged at fixed interest rates ranging from 3.08% to 6.65% per annum, all other bank borrowings bear variable interest rates ranging from 3.67% to 7.50% per annum.

33. DEFERRED TAX LIABILITIES

	Building and prepaid lease payments	**Available-for-sale financial assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	–	536	536
Amount charged directly to equity	–	1,622	1,622
At 31 December 2009 and 1 January 2010	–	2,158	2,158
Fair value adjustment arising on acquisition of subsidiaries	22,401	–	22,401
Amount charged directly to equity	–	1,249	1,249
Amount recognised in profit or loss	(1,905)	–	(1,905)
Exchange realignment	214	–	214
At 31 December 2010 and 1 January 2011	20,710	3,407	24,117
Fair value adjustment arising on acquisition of subsidiaries	17,167	–	17,167
Amount charged directly to equity	–	(1,282)	(1,282)
Amount recognised in profit or loss	(2,057)	–	(2,057)
Exchange realignment	2,311	162	2,473
At 31 December 2011 and 1 January 2012	38,131	2,287	40,418
Amount charged directly to equity	–	526	526
Amount recognised in profit or loss	(968)	–	(968)
Exchange realignment	47	2	49
At 30 September 2012	37,210	2,815	40,025

34. DEFERRED INCOME

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	–	–	83,529	298,125
Compensation received during the year *(Note a, b, c)*	–	198,472	210,659	–
Amount recognised in profit or loss *(Note a)*	–	(114,973)	–	–
Exchange realignment	–	30	3,937	416
At the end of the year/period	–	83,529	298,125	298,541

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Grand Pharm (China) Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011, RMB85,500,000 (equivalent to approximately HK$105,330,000) was received by Grand Pharm (China). The rest of RMB342,000,000 has not yet been received by the Grand Pharm (China) Group as at the date of approval of these financial statements.

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Grand Pharm (China) Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent is approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Grand Pharm (China) Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Grand Pharm (China) Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Grand Pharm (China) Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the year ended 31 December 2010 and 2011, the Grand Pharm (China) Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively.

35. PAID-IN CAPITAL

	At 31 December 2009	**At 31 December 2010**	**At 31 December 2011**	**At 30 September 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Registered capital	96,690	210,417	210,417	210,417

	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Paid-in capital				
As at 1 January	96,690	96,690	210,417	210,417
Addition	–	113,727	–	–
As at 31 December/30 September	96,690	210,417	210,417	210,417

36. RESERVES

The amounts of the Grand Pharm (China) Group's reserves and the movements therein for the relevant periods are presented in the consolidated statement of changes in equity to the consolidated financial statements.

37. ACQUISITION OF SUBSIDIARIES

(a) Hubei Fuchi

On 2 March 2010, Grand Pharm (China) and 33 shareholders of Hubei Fuchi (the "Fuchi Vendors") entered into an agreement whereby, Grand Pharm (China) agreed to acquire 75.47% of equity interests in Hubei Fuchi from the Fuchi Vendors at a consideration of approximately RMB117,000,000 (approximately to HK$135,000,000). The transaction was completed on 20 May 2010. The aggregate consideration of RMB117,000,000 has been settled by cash.

Acquisition related costs amounting to HK$600,000 have been excluded from the cost of acquisition and recognised as expenses in the year and included in the administrative expenses.

The net assets acquired in the transaction and the gain on bargain purchase arising therefrom are as follows:

	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustment *HK$'000*	Fair value *HK$'000*
Net assets acquired			
Property, plant and equipment	80,015	33,196	113,211
Prepaid lease payments	1,508	16,322	17,830
Interest in an associate	4,435	–	4,435
Inventories	54,163	–	54,163
Trade and bills receivables	36,087	–	36,087
Other receivables	83,485	–	83,485
Amount due from an associate	3,954	–	3,954
Deferred tax assets	2,138	–	2,138
Cash and cash equivalents	59,964	–	59,964
Trade and other payables	(130,724)	–	(130,724)
Tax liabilities	(23,984)	–	(23,984)
Deferred tax liabilities	–	(12,379)	(12,379)
Non-controlling interests	(7,291)	–	(7,291)
	163,750	37,139	200,889
Non-controlling interests			(49,278)
Gain on bargain purchase			(16,324)
Total consideration			135,287
Satisfied by:			
Cash and cash equivalents			135,287
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(135,287)
Less: Cash and cash equivalents acquired			59,964
			(75,323)

The gain on bargain purchase on acquisition of subsidiary was attributable to the ability of the Grand Pharm (China) Group in negotiating the agreed terms within the Fuchi Vendors.

Impact of acquisition on result of the Grand Pharm (China) Group

Included in the total consolidated profit for the year ended 31 December 2010 is an amount of HK$8,010,000 contributed by Hubei Fuchi. Revenue for the year ended 31 December 2010 includes HK$169,606,000 in respect of Hubei Fuchi.

Had the acquisition of Hubei Fuchi been effected at 1 January 2010, the Grand Pharm (China) Group's revenue for the year ended 31 December 2010 would have been HK$1,093,314,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$195,279,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Grand Pharm (China) Group that actually would have been achieved had the acquisition have been completed at 1 January 2010, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Grand Pharm (China) Group assuming that Hubei Fuchi had been acquired at the beginning of 2010, the directors have calculated deprecation of the plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(b) Hubei Ruizhu

On 2 March 2010, Grand Pharm (China) and two independent third parties (the "Hubei Ruizhu Vendors") entered into an agreement whereby, Grand Pharm (China) agreed to acquire 100% equity interests in Hubei Ruizhu from the Hubei Ruizhu Vendors at a consideration of approximately RMB110,000,000. The transaction was completed on 29 April 2010. The aggregate consideration of RMB110,000,000 (approximately HK$126,000,000) has been settled by cash of RMB40,907,511 (approximately HK$47,019,000) and a loan of RMB69,092,489 (approximately HK$79,417,000) to Hubei Ruizhu to repay the former fellow subsidiary.

Acquisition related costs amounting to HK$600,000 have been excluded from the cost of acquisition and have been recognised as expenses in the year and included in the administrative expenses.

The net assets acquired in the transaction and the gain on bargain purchase arising therefrom are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired			
Property, plant and equipment	105,352	3,246	108,598
Prepaid lease payments	6,191	21,395	27,586
Inventories	2,012	–	2,012
Trade and bills receivables	308	–	308
Cash and cash equivalents	1,863	–	1,863
Trade and other payables	(81,164)	–	(81,164)
Tax liabilities	(716)	–	(716)
Deferred tax liabilities	–	(6,160)	(6,160)
	33,846	18,481	52,327
Loan advanced to Hubei Ruizhu			79,417
Gain on bargain purchase			(5,307)
Total consideration			126,437
Satisfied by:			
Cash and cash equivalents			126,437
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(126,437)
Less: Cash and cash equivalents acquired			1,863
			(124,574)

The gain on bargain purchase on acquisition of subsidiary was attributable to the ability of the Group in negotiating the agreed terms within the Hubei Ruizhu Vendors.

Impact of acquisition on result of the Grand Pharm (China) Group

Included in the total consolidated profit for the year ended 31 December 2010 is an amount of HK$8,114,000 contributed by Hubei Ruizhu. Revenue for the year ended 31 December 2010 includes HK$19,158,000 in respect of Hubei Ruizhu.

Had the acquisition of Hubei Ruizhu been effected at 1 January 2010, the Grand Pharm (China) Group's revenue for the year ended 31 December 2010 would have been HK$1,018,188,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$184,048,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Grand Pharm (China) Group that actually would have been achieved had the acquisition have been completed at 1 January 2010, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Grand Pharm (China) Group assuming that Hubei Ruizhu had been acquired at the beginning of 2010, the directors have calculated deprecation of the plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(c) Wuhan Grand Hoyo

During the year ended 31 December 2009, Grand Pharm (China) own 56% equity interests in Wuhan Grand Hoyo, however, the Grand Pharm (China) Group had no control in Wuhan Grand Hoyo as the Grand Pharm (China) Group only have the right to nominate 3 of 7 directors of Wuhan Grand Hoyo. The directors considered that the Grand Pharm (China) Group had significant influence over Wuhan Grand Hoyo but did not have control over it and therefore Wuhan Grand Hoyo was classified as an associate of the Grand Pharm (China) Group for the year ended 31 December 2009. On 24 February 2010, the Article of Association of Wuhan Grand Hoyo was amended and the Grand Pharm (China) Group empowered to nominate 4 out of 7 directors of Wuhan Grand Hoyo. As a result, the Grand Pharm (China) Group has controlled the majority composition of the Board of directors of Wuhan Grand Hoyo, and accordingly Wuhan Grand Hoyo become a subsidiary of the Grand Pharm (China) Group and its subsidiary, assets and liabilities were then consolidated into the Grand Pharm (China) Group's consolidated financial statements since 24 February 2010.

The net assets acquired in the transaction and the gain arising on re-measuring interest in an associate to fair value on the business combination date are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired			
Property, plant and equipment	22,368	8,735	31,103
Prepaid lease payments	4,006	477	4,483
Inventories	26,156	–	26,156
Trade and bills receivables	40,480	–	40,480
Cash and cash equivalents	4,671	–	4,671
Trade and other payables	(13,191)	–	(13,191)
Tax liabilities	(913)	–	(913)
Deferred tax liabilities	–	(2,303)	(2,303)
	83,577	6,909	90,486
Non-controlling interests			(39,813)
			50,673
Gain arising on re-measuring interest in an associate to fair value on the business combination date			(2,648)
Total consideration			48,025
Satisfied by:			
Interest in an associate			48,025
Net cash inflow arising on acquisitions:			
Cash and cash equivalents acquired			4,671

The business combination was accounted for using the purchase method of accounting as at the business combination date.

Impact of acquisition on result of the Grand Pharm (China) Group

Included in the total consolidated profit for the year ended 31 December 2010 is an amount of HK$8,222,000 contributed by Wuhan Grand Hoyo. Revenue for the year ended 31 December 2010 includes HK$155,737,000 in respect of Wuhan Grand Hoyo.

Had the acquisition of Wuhan Grand Hoyo been effected at 1 January 2010, the Grand Pharm (China) Group's revenue for the year ended 31 December 2010 would have been HK$1,059,123,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$198,867,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Grand Pharm (China) Group that actually would have been achieved had the acquisition have been completed at 1 January 2010, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Grand Pharm (China) Group assuming that Wuhan Grand Hoyo had been acquired at the beginning of 2010, the directors have calculated deprecation of the plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(d) Wuhan Kernel

On 22 September 2011, Grand Pharm (China) has entered into an agreement to acquire 81.03% equity interest in Wuhan Kernel at a total consideration of approximately RMB103,000,000 (approximately HK$125,000,000). The acquisition has been completed on 17 November 2011. The aggregate consideration of approximately RMB103,000,000 has been settled by cash.

Acquisition-related costs amounting to HK$223,000 have been excluded from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired			
Property, plant and equipment	28,864	3,191	32,055
Prepaid lease payments	14,850	65,475	80,325
Interest in an associate	2,400	–	2,400
Inventories	20,183	–	20,183
Trade and bills receivables	64,167	–	64,167
Other receivables	8,029	–	8,029
Deferred tax assets	1,285	–	1,285
Cash and cash equivalents	11,844	–	11,844
Trade and other payables	(38,376)	–	(38,376)
Amount due to an associate	(52)	–	(52)
Bank borrowings	(30,513)	–	(30,513)
Tax liabilities	(427)	–	(427)
Deferred tax liabilities	–	(17,167)	(17,167)
	82,254	51,499	133,753
Non-controlling interests			(25,378)
Goodwill arising on acquisition			17,094
Total consideration			125,469
Satisfied by:			
Cash and cash equivalents			125,469
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(125,469)
Less: Cash and cash equivalents acquired			11,844
			(113,625)

The fair value of trade and bills receivables and other receivables at the date of acquisition amounted to HK$64,167,000 and HK$8,029,000 respectively. The gross contractual amounts of those trade and other receivables acquired amounted to HK$95,536,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$23,340,000.

The non-controlling interests in Wuhan Kernel recognised at the acquisition date were measured by reference to their proportionate share of net assets acquired.

Goodwill arose in the acquisition of Wuhan Kernel because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Wuhan Kernel. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on result of the Grand Pharm (China) Group

Included in the consolidated profit for the year ended 31 December 2011 is an amount of HK$1,266,000 contributed by Wuhan Kernel. Revenue for the year ended 31 December 2011 includes HK$1,865,000 in respect of Wuhan Kernel.

Had the acquisition of Wuhan Kernel been effected at 1 January 2011, the Grand Pharm (China) Group's revenue for 2011 would have been HK$1,522,895,000 and the consolidated profit for 2011 would have been HK$98,076,000, in which Wuhan Kernel recorded approximately HK$101,121,000 in turnover and approximately HK$8,928,000 in profit after tax during 2011. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Grand Pharm (China) Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Grand Pharm (China) Group assuming that Wuhan Kernel had been acquired at the beginning of the 2011, the directors have calculated depreciation of property, plant and equipment and amortisation of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

38. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in Notes 18 and 28, during the relevant periods, the Grand Pharm (China) Group entered into following transactions with its related parties:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the period from 1 January 2011 to 30 September 2011	For the period from 1 January 2012 to 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Sales of goods to associates	–	2,647	6,179	2,924	3,854

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the relevant period was as follows:

	For the year ended 31 December 2009 *HK$'000*	For the year ended 31 December 2010 *HK$'000*	For the year ended 31 December 2011 *HK$'000*	For the period from 1 January 2011 to 30 September 2011 *HK$'000* (Unaudited)	For the period from 1 January 2012 to 30 September 2012 *HK$'000*
Short-term benefits	1,785	2,329	5,407	3,189	3,112
Post-employment benefits	17	24	43	34	105
	1,802	2,353	5,450	3,223	3,217

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

39. PLEDGE OF ASSETS

The Grand Pharm (China) Group has pledged the following assets to secure the bank loans and banking facilities granted to the Grand Pharm (China) Group:

	At 31 December 2009 *HK$'000*	At 31 December 2010 *HK$'000*	At 31 December 2011 *HK$'000*	At 30 September 2012 *HK$'000*
Prepaid lease payments	174,619	4,479	80,904	79,477
Buildings	29,645	21,160	21,065	20,971
Pledged bank deposits	1,403	42,222	62,011	2,591
	205,667	67,861	163,980	103,039

40. COMMITMENTS

(a) Operating lease commitment

The Grand Pharm (China) Group as lessee:

At the end of the reporting period, the Grand Pharm (China) Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	255	316	420	427
In the second to fifth year Inclusive	1,074	947	870	565
	1,329	1,263	1,290	992

Operating lease payments represent rentals payable by the Grand Pharm (China) Group for certain of its office properties. Leases are negotiated for an average term of one to four years and rentals are fixed for an average of one to four years.

The Grand Pharm (China) Group as lessor:

The Grand Pharm (China) Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2011 (unaudited) and 30 September 2012 was approximately HK$682,000, HK$969,000, HK$783,000, HK$655,000 and HK$487,000 respectively. The total future minimum lease payments from tenants under non-cancellable operating lease are as follows:

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	433	515	190	419
In the second to fifth year Inclusive	145	204	13	–
	578	719	203	419

(b) Capital commitment

	At 31 December 2009	At 31 December 2010	At 31 December 2011	At 30 September 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted but not provided for:				
Acquisition of property, plant and equipment	780	33,105	137,918	230,214
Acquisition of other non-current assets	–	–	407	–
	780	33,105	138,325	230,214

41. RETIREMENT BENEFIT SCHEMES

Employees of the subsidiaries and associates in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and associates were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Grand Pharm (China) Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total cost charged to income of earned during the year ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2011 (unaudited) and 30 September 2012 was approximately HK$5,373,000, HK$6,851,000, HK$13,323,000, HK$11,441,000 and HK$13,880,000 payable to these schemes by the Grand Pharm (China) Group in respect of the current accounting period.

42. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Financial Information, there was no significant event took place subsequent to 30 September 2012.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Grand Pharm (China) in respect of any period subsequent to 30 September 2012 and no dividends or other distributions have been declared by Grand Pharm (China) in respect of any period subsequent to 30 September 2012.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
Hon Koon Fai, Alex
Practising Certificate Number: P05029
Hong Kong

The following is the text of the unaudited pro forma financial information of the Enlarged Group, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

26 March 2013

The Board of Directors
China Grand Pharmaceutical and
Healthcare Holdings Limited
Units 3302, The Center,
99 Queen's Road Central,
HONG KONG

Dear Sirs,

We report on the unaudited pro forma financial information of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Grand Pharm (China) Company Limited (the "Target Company") and its subsidiaries (the "Target Group") (together with the Group hereinafter referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 20.26% of the entire equity interest of the Target Company and all obligations, liabilities and debts owing or incurred by the Target Group (the "Proposed Acquisition") might have affected the financial information presented, for inclusion as Appendix III of the circular of the Company dated 26 March 2013 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 119 and 122 of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rules 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS (CONTINUED)

It is our responsibility to form an opinion as required by Rule 4.29(7) of the Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2012 or any future date; or
- the financial results and cash flows of the Enlarged Group for the year ended 31 December 2012 or for any future period.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
Hon Koon Fai, Alex
Practising Certificate Number: P05029
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of the Acquisition took place on 30 June 2012.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the unaudited consolidated financial information of the Group for the period ended 30 June 2012 and the unaudited consolidated financial information of the Grand Pharm (China) Group for the period ended 30 September 2012, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained has the Proposed Acquisition been completed on 30 June 2012, nor purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information on the Group as set out in Appendix I, historical financial information of the Grand Pharm (China) Group as set out in Appendix II and other financial information included elsewhere in the Circular.

The Unaudited Pro Forma Financial Information on the Enlarged Group has been prepared by the directors of the Company for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Enlarged Group following completion of the Proposed Acquisition.

(I) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming that the Acquisition has been completed on 30 June 2012. The information is based on the unaudited financial statements of the Group as at 30 June 2012 and the unaudited financial statements of the Grand Pharm (China) Group as at 30 September 2012 as set out in Appendix II. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	Unaudited consolidated statement of financial position of the Group as at 30 June 2012		Pro forma adjustments for the Acquisition	Unaudited pro forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*Notes*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	929,775			929,775
Prepaid lease payments	408,753			408,753
Interests in associates	9,339			9,339
Available-for-sale financial assets	54,242			54,242
Deposits for acquisition of non-current assets	18,471			18,471
Goodwill	72,037			72,037
Intangible assets	536			536
Deferred tax assets	3,590			3,590
Prepayments	29,075			29,075
	1,525,818			1,525,818
Current assets				
Inventories	315,876			315,876
Trade and other receivables	654,625			654,625
Loan receivables	24,411			24,411
Prepaid lease payments – current portion	9,246			9,246
Pledged bank deposits	112,902			112,902
Bank balances and cash	595,438	1	(167,606)	427,832
	1,712,498			1,544,892
Current liabilities				
Trade and other payables	556,780			556,780
Bank borrowings	1,124,139			1,124,139
Tax payable	31,138			31,138
	1,712,057			1,712,057
Net current assets/(liabilities)	441			(167,165)
Total assets less current liabilities	1,526,259			1,358,653

	Unaudited consolidated statement of financial position of the Group as at 30 June 2012		Pro forma adjustments for the Acquisition	Unaudited pro forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*Notes*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank borrowings	164,775			164,775
Deferred tax liabilities	83,314			83,314
Amount due to holding company	12,280			12,280
Deferred income	295,375			295,375
	555,744			555,744
Net assets	970,515			802,909
Capital and reserves				
Share capital	19,620			19,620
Reserves	654,354	2	(3,591)	650,763
Equity attributable to owners of the Company	673,974			670,383
Non-controlling interests	296,541	2	(164,015)	132,526
Total equity	970,515			802,909

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Under HKAS 27 (Revised) Consolidated and Separate Financial Statements ("HKAS 27(R)"), changes in the Company's ownership interest in Grand Pharm (China) should be accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company.

The adjustment reflected the following:

1. Pursuant to the open tender on 29 November 2012, Wuhan Heqinlove acquired approximately 20.26% of the entire equity interest of Grand Pharm (China) at a total consideration of approximately RMB134,923,000 (equivalent to approximately HK$167,606,000).

   The pro forma adjustments represent the cash consideration of approximately HK$167,606,000 to be paid to the Wuhan State-Owned Assets Management Limited.

2. The pro forma adjustments represent the effect on non-controlling interests and equity attributable to owners of the Company for the acquisition of additional equity interest in Grand Pharm (China) of 20.26%, as follows:

	HK$'000
Net assets value of the Grand Pharm (China) Group	809,549
Effect on non-controlling interests arrived at 20.26% of the adjusted net assets value of the Grand Pharm (China) Group	164,015
Capital reserve	3,591
Total consideration to be paid to the Wuhan State-Owned Assets Management Limited	167,606

3. For the purpose of preparing the Unaudited Pro Forma Financial Information, the consideration for the Acquisition and the carrying values of the net assets of the Grand Pharm (China) Group based on the unaudited consolidated result of the Grand Pharm (China) Group as at 30 September 2012 prepared under HKGAAP.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Interests in Shares:

Name of Director	Number of the Shares held	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
Shao Yan *(Note 1)*	1,000,000 (L)	Interest in spouse	0.05

(L) denotes long position

Note:

1. Dr. Shao Yan is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 1,000,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit	1,228,275,094(L)	Beneficial owner	62.60
Mr. Hu *(Note 1)*	1,228,275,094(L)	Beneficial owner	62.60
Huang Gang City State-Owned Asset Operation Company (黃岡市國有資產經營公司#) *(Note 2)*	RMB 4,000,000 out of RMB 38,990,000 registered capital (L)	Beneficial shareholder of a member of the Group	10.26%
武漢大學資產經營投資管理有限責任公司 (Wuhan University Assets Operation Investment Management Limited#) *(Note 3)*	RMB 12,300,000 out of RMB 50,000,000 registered capital (L)	Beneficial shareholder of a member of the Group	24.60%

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
武漢市蔬菜科學研究所 (Wuhan City Vegetables Science Research Institution#) *(Note 4)*	RMB 921,006 out of RMB 5,736,888 registered capital (L)	Beneficial shareholder of a member of the Group	16.05%
北京九州互聯農牧科技有限公司 (Beijing Jiu Zhou Hu Lian Nong Mu Technology Limited#) *(Note 5)*	RMB 2,000,000 out of RMB 4,000,000 registered capital (L)	Beneficial shareholder of an associated corporation of the Company	50%
Mr. Yang Li Xin *(Note 6)*	RMB 1,020,000 out of RMB 2,000,000 registered capital (L)	Beneficial shareholder of an associated corporation of the Company	51%
Mr. Ye Bo *(Note 7)*	RMB 1,800,000 out of RMB 10,000,000 registered capital (L)	Beneficial shareholder of a member of the Group	18%
Ms. Ye Jing Jing *(Note 8)*	RMB 1,500,000 out of RMB 10,000,000 registered capital (L)	Beneficial Beneficial shareholder of a member of the Group	15%

Notes:

1. These shares are held by Outwit, the entire issued share capital of which is wholly owned by Mr. Hu.

2. Huang Gang City State-Owned Asset Operation Company (黃岡市國有資產經營公司#) established in the PRC, holds approximately 10.26% (i.e. RMB 4,000,000out of RMB 38,990,000 registered capital) in Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited.

3. 武漢大學資產經營投資管理有限責任公司 (Wuhan University Assets Operation Investment Management Limited#) established in the PRC, holds approximately 24.60% (i.e. RMB 12,300,000 out of RMB 50,000,000 registered capital) in Wuhan Grand Hoyo Company Limited.

4. 武漢市蔬菜科學研究所 (Wuhan City Vegetables Science Research Institution#) established in the PRC, holds approximately 16.05% (i.e. RMB 921,006 out of RMB 5,736,888 registered capital) in Wuhan Kernel Bio Tech Company Limited.

5. 北京九州互聯農牧科技有限公司 (Beijing Jiu Zhou Hu Lian Nong Mu Technology Limited#) established in the PRC, holds approximately 50% (i.e. RMB 2,000,000 out of RMB 4,000,000 registered capital) in 武漢智薈生物科技股份有限公司 (Wuhan Zhi Hui Bio-Technology Holdings Limited#), an associated corporation of the Company.

6. Mr. Yang Li Xin holds approximately 51% (i.e. RMB 1,020,000 out of RMB 2,000,000 registered capital) in 陽新富新化工有限責任公司 (Yang Xin Fu Xin Chemical Limited#), an associated corporation of the Company.

7. Mr. Ye Bo holds approximately 18% (i.e. RMB 1,800,000 out of RMB 10,000,000 registered capital) in Zhejiang Xianju Xianle Pharmaceutical Company Limited.

8. Ms. Ye Jing Jing holds approximately 15% (i.e. RMB 1,500,000 out of RMB 10,000,000 registered capital) in Zhejiang Xianju Xianle Pharmaceutical Company Limited.

Save as disclosed, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(c) Interests and short position of Directors or proposed Directors who is a director or employee of a company or companies which has or have an interest on short position in the Shares, underlying Shares and debentures of the Company

As at the Latest Practicable Date, none of the Directors or proposed directors was a director or employee of any company which has an interest or short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

1. the acquisition agreement dated 22 September 2011 entered into between 武漢光谷聯合股份有限公司 (Wuhan Optics Valley Union Company Limited#) and Grand Pharm (China) relating to the sale and purchase of the 46,483,880 shares of RMB1.00 each in the registered capital of 武漢科諾生物科技股份有限公司 (Wuhan Kernel Bio Tech Co., Limited#), representing 81.0263% of the total share capital of 武漢科諾生物科技股份有限公司 at a total consideration of RMB110,000,000;

2. the subscription agreement dated 14 February 2012 entered into between the Company and 武漢英納威管理諮詢有限公司 (Wuhan Ying Na Wei Management Consultancy Limited#) (the "Ying Na Wei") relating to the subscription of 41,240,000 new shares to be allotted and issued by the Company to Ying Na Wei at HK$0.333 per shares. The gross proceeds and the net proceeds of the subscription were approximately HK$13.73 million and HK$13.63 million;

3. the acquisition agreement dated 14 February 2012 entered into between China Grand (Hong Kong) and Ying Na Wei relating to the sale and purchase of the 2.28% equity interest of Grand Pharm (China) at a consideration of approximately RMB9.66 million;

4. the acquisition agreement dated 12 November 2012 entered into between 湖北絲寶藥業有限公司 (Hubei C-Bons Pharmaceutical Co., Ltd#) and Grand Pharm (China) relating to the sale and purchaser of entire share capital of 湖北舒邦藥業有限公司 (Hubei Wellness Pharmaceutical Co., Ltd#) at a consideration of RMB72 million;

5. the agreement (the "Grand Pharm R&D Agreement I") entered into between Grand Pharm (China) and 北京遠創易成醫藥科技有限公司 (Yuan Chuang Yi Cheng Pharmaceutical Technology Limited#) ("**Yuan Chuan Yi Cheng**") dated 28 November 2012 in respect of the provision of research and development services for Bosentan by Yuan Chuang Yi Cheng;

6. the agreement (the "**Grand Pharm R&D Agreement II**") entered into between Grand Pharm (China) and Yuan Chuang Yi Cheng dated 28 November 2012 in respect of the provision of research and development services for Trimetazidine by Yuan Chuang Yi Cheng;

7. the agreement (the "**Grand Pharm R&D Agreement III**") entered into between Grand Pharm (China) and 武漢遠諾維盛醫藥科技有限公司 (Yuan Nuo Wei Sheng Pharmaceutical Technology Limited#) ("**Yuan Nuo Wei Sheng**") dated 28 November 2012 in respect of the provision of research and development services for Bimatoprost pharmaceutical raw material and Bimatoprost eyedrops by Yuan Nuo Wei Sheng;

8. the agreement (the "**Grand Pharm R&D Agreement IV**") entered into between Grand Pharm (China) and Yuan Chuang Yi Cheng dated 28 November 2012 in respect of the provision of research and development services for the improvement of Meoprolol Tartrate tablets by Yuan Chuang Yi Cheng;

9. the agreement (the "**Grand Pharm Supply Agreement**") entered into between Grand Pharm (China) and Huadong Medicine Co., Ltd dated 28 November 2012 in respect of the supply pharmaceutical preparations, raw materials and technologies to Huadong Medicine Co., Ltd;

10. the agreement (the "**Xianle Purchase Agreement I**") entered into between Zhejiang Xianju Xianle Pharmaceutical Company Limited ("**Zhejiang Xianle**") and 保定九孚生化有限公司 (Bao Ding Jiu Fu Bio-chemical Limited#) ("**Bao Ding Jiu Fu**") dated 28 November 2012 in respect of the purchase of raw materials for steroid hormones and intermediates from Bao Ding Jiu Fu;

11. the agreement (the "**Xianle Purchase Agreement II**") entered into between Zhejiang Xianle and 鹽城信誼藥化工有限公司 (Yan Cheng Xin Yi Pharmaceutical Chemical Limited#) ("**Yan Cheng Xin Yi**") dated 28 November 2012 in respect of the purchase of raw materials for steroid hormones and intermediates from Yan Cheng Xin Yi;

12. the agreement (the "**Xianle Purchase Agreement III**") entered into between Zhejiang Xianle and Grand Group Corporation Limited ("**Grand Group Corporation**") dated 28 November 2012 in respect of the purchase of raw materials for steroid hormones and intermediates from Grand Group Corporation;

13. the agreement entered into between Zhejiang Xianle and 江蘇九陽生物制藥有限公司 (Jiang Su Jiu Yang Biological Pharmaceutical Limited#) dated 28 November 2012 in respect of sub-contract of the processing works of steroid hormones and intermediates from 江蘇九陽生物制藥有限公司;

14. the supplemental agreement entered into between Grand Pharm (China) and Yuan Chuang Yi Cheng dated 21 December 2012 in relation to the amendments of certain terms of Grand Pharm R&D Agreement I;

15. the supplemental agreement entered into between Grand Pharm (China) and Yuan Chuang Yi Cheng dated 21 December 2012 in relation to the amendments of certain terms of Grand Pharm R&D Agreement II;

16. the supplemental agreement entered into between Grand Pharm (China) and Yuan Chuang Yi Cheng dated 21 December 2012 in relation to the amendments of certain terms of Grand Pharm R&D Agreement III;

17. the supplemental agreement entered into between Grand Pharm (China) and Huadong Medicine Co., Ltd dated 21 December 2012 in relation to the amendments of certain terms of Grand Pharm Supply Agreement;

18. the supplemental agreement entered into between Zhejiang Xianle and Bao Ding Jiu Fu dated 21 December 2012 in relation to the amendments of certain terms of Xianle Purchase Agreement I;

19. the supplemental agreement entered into between Zhejiang Xianle and Yan Cheng Xin Yi dated 21 December 2012 in relation to the amendments of certain terms of Xianle Purchase Agreement II;

20. the supplemental agreement entered into between Zhejiang Xianle and Grand Group Corporation dated 21 December 2012 in relation to the amendments of certain terms of Xianle Purchase Agreement III;

21. the agreement entered into between 武漢開元科技創業投資有限公司 (Wuhan Keywin Venture Capital., Ltd.#) and 武漢和勤艾管理咨詢有限公司 (Wuhan Heqinlove Consultation Management Co., Ltd.#) dated 21 December 2012 in respect of the acquisition of the approximately 3.39% equity interest of Grand Pharm (China) at a consideration of RMB20,064,000 (equivalent to approximately HK$24,924,000);

22. the joint venture agreement entered into between 黃石飛雲製藥有限公司 (Huangshi Feiyun Pharmaceutical Company#) and Grand Pharm (China) in relation to the formation of 遠大醫藥（中國）黃石飛雲製藥有限公司 (Grand Pharmaceutical (China) Huangshi Feiyun Company Limited#); and

23. the Share Transfer Agreement.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Guangdong Securities Limited	a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
HLB Hodgson Impey Cheng Limited	Chartered Accountants Certified Public Accountants

Each of Guangdong Securities and HLB Hodgson Impey Cheng Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and/or to its name in the form and context in which the respectively appear.

As at the Latest Practicable Date, each of Guangdong Securities and HLB Hodgson Impey Cheng Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any or its subsidiaries.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

9. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The registered office of the Company is located at Clarendon House 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business in Hong Kong is at Units 3302, The Center, 99 Queen's Road Central, Hong Kong;

(d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The company secretary of the Company is Mr. Foo Tin Chung, Victor. He is currently a member of the Australia Society of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Certified Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company at Units 3302, The Centre, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including 9 April 2013:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for each of the two financial years ended 31 December 2011;

(c) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(d) the written consents referred to under the paragraph headed "Experts" in this appendix;

(e) the letter from HLB Hodgson Impey Cheng Limited in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out in Appendix III to this circular;

(f) the letter of advice from Guangdong Securities Limited to the Independent Board Committee and the Independent shareholders, the text of which is set out on pages 25 to 38 in this circular;

(g) the accountants' report of Grand Pharm (China) Group, the text of which is set out in Appendix II to this circular;

(h) a copy of each of the circulars issued pursuant to the requirements set out in Chapters 14 or 14A of the Listing Rules which have been issued by the Company since 31 December 2011 (the date to which the latest published audited consolidated financial statements of the Group were made up), including this circular; and

(i) the Share Transfer Agreement.