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CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED

遠大醫藥健康控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

2014 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board of directors (the “Board”) of China Grand Pharmaceutical and Healthcare Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2014 of the Company and its subsidiaries (collectively the “Group”), together with comparative figures for the previous period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Note	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	1,627,705	1,328,084
Cost of sales		(1,047,088)	(904,197)
Gross profit		580,617	423,887
Other revenue and income		22,306	14,593
Distribution costs		(302,329)	(214,272)
Administrative expenses		(170,324)	(146,863)
Other operating expenses		(482)	(180)
Share of results of associates		261	201
Finance costs		(50,978)	(30,075)
Profit before tax		79,071	47,291
Income tax expense	5	(17,621)	(9,542)
Profit for the period	6	61,450	37,749

		Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
	<i>Note</i>	(Unaudited)	(Unaudited)
Other comprehensive income			
Exchange difference on translation of foreign operations		210	11,714
Change in fair value of available-for-sale financial assets, after tax		-	3,108
Other comprehensive income for the period		210	14,822
Total comprehensive income for the period		61,660	52,571
Profit for the period attributable to:			
- Owners of the Company		60,376	34,288
- Non-controlling interests		1,074	3,461
		61,450	37,749
Total comprehensive income attributable to:			
- Owners of the Company		60,553	48,670
- Non-controlling interests		1,107	3,901
		61,660	52,571
Dividend	7	-	-
Earnings per share	8		
- Basic (HK cents)		3.08 cents	1.75 cents
- Diluted (HK cents)		3.08 cents	1.75 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
	Note		
Non-current assets			
Property, plant and equipment		2,191,840	2,095,369
Prepaid lease payments		278,974	287,539
Interests in associates		7,488	6,297
Available-for-sale financial assets		104,522	43,387
Deposit for acquisition of non-current assets		1,329	13,969
Goodwill		125,175	124,777
Intangible assets		76,858	82,782
Deferred tax assets		1,842	1,362
Prepayments		27,111	17,631
Loan receivables		-	20,493
		2,815,139	2,693,606
Current assets			
Inventories		441,169	562,283
Trade and other receivables	9	1,027,247	892,610
Loan receivables		50,353	33,301
Prepaid lease payments		4,674	4,761
Pledged bank deposits		119,258	129,023
Cash and cash equivalents		270,689	249,765
		1,913,390	1,871,743
Current liabilities			
Trade and other payables	10	1,135,945	1,306,257
Bank borrowings		1,738,668	1,262,267
Obligations under finance leases		5,595	5,516
Derivative financial instrument		-	1,310
Income tax payable		39,453	38,879
		2,919,661	2,614,229
Net current liabilities		(1,006,271)	(742,486)
Total assets less current liabilities		1,808,868	1,951,120
Non-current liabilities			
Bank borrowings		183,159	395,768
Obligations under finance leases		4,939	7,916
Deferred tax liabilities		47,566	50,200
Amount due to holding company		22,510	21,401
Deferred income		398,245	385,046
		656,419	860,331
Net assets		1,152,449	1,090,789
Capital and reserves attributable to owners of the Company			
Share capital		19,620	19,620
Reserves		917,816	857,263
Equity attributable to owners of the Company		937,436	876,883
Non-controlling interests		215,013	213,906
Total equity		1,152,449	1,090,789

Notes:

1. Review of interim results

The interim results have been reviewed by the audit committee.

2. Basis of preparation

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

This consolidated interim financial result contains consolidated financial results and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. This consolidated interim financial results and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Report Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and methods of computation used in the preparation of this interim report are consistent with those adopted by the Group in the 2013 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2014. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

The financial information relating to the financial year ended 31 December 2013 included in this consolidated interim financial results as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2014.

3. Turnover

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

4. Segment information

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

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

5. Income tax expenses

Taxation in the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
People's Republic of China ("PRC") Enterprise Income Tax	19,317	10,801
Deferred tax	(1,696)	(1,259)
	17,621	9,542

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

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

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

6. Profit for the period

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging:		
Staff costs (excluding directors' emoluments) comprises:		
- Wages and salaries	195,967	126,182
- Retirement benefits schemes contributions	12,760	11,479
	208,727	137,661
Depreciation of property, plant and equipment	70,938	41,816
Amortisation of prepaid lease payments	5,072	5,076
Amortisation of intangible assets	-	180
Total depreciation and amortisation	76,010	47,072
Cost of inventories recognised as an expense	1,047,088	904,197
Operating leases rentals in respect of land and buildings	5,109	1,418
(Gain)/loss on disposal of property, plant and equipment	(58)	30
Research and development costs	34,400	34,565
Written off of property, plant and equipment	-	10

7. Interim dividend

No dividend were paid, declared or proposed during the reporting period. The Board does not recommend the payment of an interim dividend for the period (2013: Nil).

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity holders of the Company of HK\$60,376,000 (2013: HK\$34,288,000) and on 1,962,040,888 (2013: 1,962,040,888) ordinary shares, being the weighted average ordinary shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2014 and 2013, as there was no dilutive potential ordinary share for the period.

9. Trade and other receivables

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade receivables	679,000	321,976
Bills receivables	103,815	324,225
Other receivables, deposits and prepayments	267,829	269,515
Less: impairment loss on other receivables	(23,397)	(23,106)
	<u>1,027,247</u>	<u>892,610</u>

The aging analysis of trade receivables is set out below:

Within 90 days	596,829	292,543
91-180 days	71,792	27,273
181-365 days	13,796	11,682
Over 365 days	28,878	21,781
	<u>711,295</u>	<u>353,279</u>
Less: accumulated impairment	<u>(32,295)</u>	<u>(31,303)</u>
	<u>679,000</u>	<u>321,976</u>

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

10. Trade and other payables

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade payables	345,266	318,243
Bills payables	231,287	389,551
Accrued charges and other creditors	559,392	598,463
	<u>1,135,945</u>	<u>1,306,257</u>

The aging analysis of trade payables is set out below:

Within 90 days	242,336	205,376
Over 90 days	102,930	112,867
	<u>345,266</u>	<u>318,243</u>

11. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialized pharmaceutical raw materials and healthcare products. The core products of pharmaceutical preparations include cerebro-cardiovascular medicines, ENT products such as ophthalmic medicines, medicines for anti-bacterial and antibiotics, antipyretic and analgesic, etc. The major products of pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and our healthcare core products include taurine, etc.

The Group always pays attention to the production and sales of the existing products, and also endeavors to enlarge the product pool of the core products of the Group. In July 2013, the Group acquired 70.84% equity interest of Beijing Rui Yao Technology Limited (“Rui Yao”), which introduced new cerebro-cardiovascular medicines to the Group and also enlarged our sales network and contributed turnover amount to the Group, and resulted obvious synergy effect. Alternatively, the Group has also stepped into some new and important treatment area, such as antitumor medicines. The newly formed subsidiary Grand Pharmaceutical Huangshi Feiyun Company Limited (“Grand HuangShi Feiyun”) in 2013 has commenced commercial production, and contributes to the Group in term of adding natural extracted pharmaceutical products in the cerebro-cardiovascular medicines area and enhancing antibiotics products types, and leading the Group to enter the antitumor medicines area.

The Group commits to expand business through self-expansion such as development of new medicines, improvement of production technology, change of production structure more effectively, expansion of production capacity and extension of the sales networks, and acquisition of related medical assets in order to maintain relatively high growth rate. Our objective is being one of the largest manufacturers of pharmaceutical and healthcare products in the PRC.

In June 2014, the Group entered a purchase and subscription of registered capital agreement, proposed to acquire 52.25% equity interest of Shanghai Weicon Optical Co., Ltd. (“Shanghai Weicon”) at a consideration of US\$57,750,000. It will further invest USD11,000,000 in Shanghai Weicon after the completion of the said acquisition and thus it will finally hold 55% equity interest of Shanghai Weicon. Shanghai Weicon is a leading contact lenses and solutions manufacturer in PRC, and this acquisition will allow the Company to continue to pursue its long-term business diversification strategy by entering into the contact lens and solutions business, so as to further enhance its revenue sources as well as to bring positive return to the Shareholders. Up to the date of this announcement, this acquisition is still in progress.

In June 2014, the Company also entered convertible bonds subscription agreements with 2 investors for the subscription of convertible bonds at the principal amount of HK\$300,000,000 and HK\$30,000,000 respectively. The Board considers that the issuance of convertible bonds is the most practicable way of raising funds, and this also signifies the confidence of investors in the potential of the Company and demonstrates their willingness to support the Company. Up to the date of this announcement, the subscription of convertible bonds is still in progress.

Turnover

For the six months ended 30 June 2014, the Group recorded a turnover amount of approximately HK\$1,628 million, which increased by approximately 22.6% in compare with the same period of last year. The average gross profit margin of the Group was approximately 35.7%, which increased by approximately 3.8% in compare with the same period of 2013.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products are cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines etc., and the anti-tumor medicines which are new products of the Group. During the six months period ended 30 June 2014, the turnover amount of pharmaceutical preparations was approximately RMB477.78 million and was increased by approximately 40.3% in compare with same period of last year.

- Cerebro-cardiovascular medicines

The cerebro-cardiovascular medicines are the core product and the business growth engine of the Group. During the six months period ended 30 June 2014, the turnover amount of cerebro-cardiovascular medicines was approximately RMB218.15 million, which increased by 57.6% in compare with the same period of last year. The growth is stimulated by the expansion of market coverage, and the strategy of setting up academic training at regional focus hospitals in the current year to strengthen the proper prescription of dosage. Norepinephrine Bitartrate injection and Adrenaline Hydrochloride injection which are used for emergency purpose recorded the turnover amount of approximately RMB99.06 million, increased by approximately 43.3%. Fructose Sodium Diphosphate, a product of Rui Yao which was acquired in October 2013, recorded a turnover amount of approximately RMB34.44 million.

- Ophthalmic medicines and other pharmaceutical preparations

During the current six months period, ophthalmic medicine recorded a turnover amount of RMB81.59 million, which increased by approximately 14.2% in compare with the first six months of 2013. One of the key growing point of ophthalmic medicine was the non-prescription medicines Polyvinyl Alcohol eyedrops, which recorded turnover amount of approximately RMB23.65 million and increased by approximately 32.7% in compare with same period of last year. This is mainly due to the contribution to the Group by reinforcing media promotions and branding, which received breakthrough in districts such as Jiangsu, Beijing, Guangdong, etc. Traditional antibacterial medicine Enoxacin recorded a turnover amount of approximately RMB25.34 million, increased by approximately 21.9% in compare with the same period of last year. Anti-viral Oral Solutions, a product of Grand Huangshi Feiyun , also recorded a turnover amount of approximately RMB20.78 million.

Pharmaceutical Intermediates

The pharmaceutical intermediates are also major products of the Group which include pharmaceutical raw materials such as Analgin, Metronidazole and Chloramphenicol and other amino acid products. For the six months period ended 30 June 2014, the turnover amount of pharmaceutical intermediates was approximately RMB354.47 million, while it was approximately RMB325.56 million in the same period of 2013.

- Pharmaceutical raw materials

During the six months period ended 30 June 2014, the turnover amount of pharmaceutical raw materials was approximately RMB194.45 million, while it was approximately RMB185.83 million in the same period of last year. The Analgin recorded turnover amount of approximately RMB103.51 million and was increased by approximately 11.8%, which was mainly benefit from the change of pricing policy in mid-2014 and attracted more customers to order products of the Group.

- Amino acids products

During the current period, the turnover amount of the amino acids products of the Group was approximately RMB160.03 million, which increased by approximately 14.5% in compare with the same period of last year. The major products such as L-cysteine HCl Monohydrate and N-acetyl-L-cysteine recorded the turnover amount of approximately RMB45.16 million and RMB22.55 million respectively with an aggregate increment of approximately 9.6% in compare with the same period of last year. This is mainly due to the enhancement of production capacity in the new plant at Fuchi district and the enhancement of production technology resulted to the provision of our products to high-end market. Another market popular product L-Leucine also recorded a turnover amount of approximately RMB19.70 million in the current period.

Steroid Hormones and its Intermediates

The Group is one of the few steroid hormones raw materials manufacturers in the PRC, and our products quality has been accepted by the PRC and overseas customers. The newly constructed production facilities in Jiangsu was completed and commenced production in 2013, which will enhance the steroid hormones intermediates production capacities of the Group and enhance the production technologies in order to cope with the market needs. Apart from the completion of the new production

facilities, the Group launched new product Prednisone series in 2013 which also continue to make contribution during the current period. During the current review period, the turnover amount of steroid hormones intermediates was approximately RMB165.63 million, which increased by approximately 24.3% in comparison with the same period of last year.

- **Glucocorticoid and Sex Hormones**

During the current period, the Glucocorticoid product of the Group include Betamethasone and Dexamethasone, recorded a turnover amount of approximately RMB91.41 million, which was increased by approximately 29.7% in compare with the same period of last year. The reason of such increment was mainly due to the adjustment of sales policy, focusing on development of the customers from India which already provided contribution to the Group.

- **Prednisone Series**

Prednisone Series, a product of the Group newly launched at the year end of 2013, was produced at the new production facility in Jiangsu. During the six months period ended 30 June 2014, the turnover amount of the Prednisone was approximately RMB33.68 million. The main customers of these products are from India, and started expanding footprint to other Southeast Asia market such as Vietnam, etc., and is also seeking the direct sales to end customers as the main sales channel to reduce distribution costs.

Healthcare and Chemical Products

The healthcare and chemical products manufactured and sold by the Group include Taurine, Calcium Superphosphate and Dimethyl Sulfate and the bio-pesticides and bio-feed additives products which already have certain market shares and are well recognized by customers. In the first six months of 2014, the turnover amount of the relevant products was approximately RMB296.21 million.

- **Taurine**

Due to the completion of production technology enhancement projects and improved product quality and production efficiency, the Taurine of the Group maintained a stable growth. In the current period, Taurine recorded a turnover amount of approximately RMB103.39 million, increased by approximately 5.2% as compared with the same period of last year.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses of this period were approximately HK\$302.33 million and HK\$170.32 million respectively, while it was approximately HK\$214.27 million and HK\$146.86 million respectively in the same period of last year. The increment of these two expenses were mainly due to the execution of the strategy in related to the expansion of market share and resulted an approximately 22.6% increment of turnover amount. It is also contributed by the newly acquired business and the reallocation of the production plant.

Finance Costs

For the six months period of 2014, the finance costs of the Group were approximately HK\$50.98 million, while they were approximately HK\$30.08 million during the same period of 2013. The increment was mainly due to the structural change of bank loans to cope with production capacity expansion and the operational expenses during the production plants relocation.

Outlook and Future Prospects

Despite the accelerated expansion and continuous rapid growth in the pharmaceutical market in the PRC, with the structural adjustment in the PRC's macro-economy and various factors like the anti-commercial bribery initiative, bidding policy and change on business models in the pharmaceutical industry, an obvious slowdown was seen in the growth of sales income and profit generated from the pharmaceutical market in the recent two years.

According to the latest statistics issued by South Medicine Economic Research Institute, income and profit generated from the entire pharmaceutical industry has maintained a certain degree of growth rate for the first half of 2014 as compared to the corresponding period of last year, representing an increase

of approximately 13.85% and 14.78% respectively. However, the growth rates of sales income and profit are showing down trends, with a decrease of approximately 5.7% and 1.6% respectively.

Through the successful merges and acquisitions of product ranges and sales network, the Group relocated its existing factories, set up its new production facilities and obtained the latest GMP certificate, which promoted accelerated improvements in the overall results. Since the second half of last year, a positive momentum was seen in the growth of turnover and net profit, with an increase of approximately 22.6% and 62.8% respectively, which were higher than the average growth levels in the market, with net profit relatively higher than the growth in income.

The Group will persist in the implementing “product cluster strategy” and “industrial chain strategy”. Regarding pharmaceutical preparations, the Group will increase the market share of its products and enhance the marketing efficiency of the sales team. The Group will fully utilize the bio-tech production technology platform owned by the Group and introduce bio-tech production technology into the pharmaceutical raw materials segment, so as to uplift product quality with an aim to enter the high-end product market.

Coming few years will be a stage of rapid development in the history of the Group. The Group will increase investment in research and development, and will continuously introduce new products, increase product varieties, and expand market share. At the same time, we will also integrate our sales channels and working teams so as to fully explore the synergies within the Group. Based on our core products, the Group will continuously identify targets in the market for acquisition so as to realise the synchronized growth of the Group both internally and externally as well as to achieve the strategic objective of mutual support, with an aim to present satisfactory performance to all the shareholders of the Company.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

Employees and Remuneration Policy

As at 30 June 2014, the Group employed about 5,400 staff and workers in Hong Kong and the PRC (31 December 2013: about 5,400). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Subsequent Events

No subsequent events occurred after 30 June 2014, which may have a significant effect, on the assets and liabilities of future operations of the Group.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of the Company’s directors, all directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the six months ended 30 June 2014.

Code of Corporate Governance Practices

The Company has complied with all of the code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2014.

Audit Committee

The Company has established the audit committee for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. Currently, the audit committee is chaired by independent non-executive director Ms So Tosi

Wan, Winnie and other members include the two independent non-executive directors Mr Lo Kai Lawrence and Dr. Pei Geng.

The Group's unaudited interim financial statements for the six months ended 30 June 2014 has been reviewed by the audit committee.

Remuneration Committee

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

Nomination Committee

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

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

Hong Kong, 28 August 2014

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

* *For identification purpose only.*