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CGE HEALTHCARE
中国远大 健康

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)

2016 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board (the ‘‘**Board**’’) of directors (the “**Directors**”) 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 2016 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 2016

		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**1,781,300**	1,576,901
Cost of sales		**(1,019,729)**	(960,392)
Gross profit		**761,571**	616,509
Other revenue and income		**25,988**	21,130
Distribution costs		**(366,195)**	(296,933)
Administrative expenses		**(193,710)**	(166,538)
Other operating expenses		**(5,866)**	(6,631)
Share of results of associates		**(4,950)**	(142)
Finance costs		**(85,939)**	(64,662)
Profit before tax		**130,899**	102,733
Income tax expense	*5*	**(23,999)**	(21,938)
Profit for the period	*6*	**106,900**	80,795

	Note	Six months ended 30 June **2016** ***HK$'000*** **(Unaudited)**	 2015 *HK$'000* (Unaudited)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of foreign operations		**(48,445)**	(190)
Other comprehensive loss for the period, net of income tax		**(48,445)**	(190)
Total comprehensive income for the period, net of income tax		**58,455**	80,605
Profit/(loss) for the period attributable to:			
- Owners of the Company		**110,831**	79,130
- Non-controlling interests		**(3,931)**	1,665
		106,900	80,795
Total comprehensive income/(loss) for the period attributable to:			
- Owners of the Company		**62,533**	78,959
- Non-controlling interests		**(4,078)**	1,646
		58,455	80,605
Dividend	*7*	**-**	-
Earnings per share	*8*		
- Basic (HK cents)		**5.65 cents**	4.03 cents
- Diluted (HK cents)		**5.37 cents**	3.97 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	**30 June 2016** **HK$'000** **(Unaudited)**	31 December 2015 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**2,510,150**	2,543,235
Prepaid lease payments		**275,461**	269,520
Interests in associates		**203,765**	224,520
Available-for-sale financial assets		**94,568**	97,332
Deposit for acquisition of non-current assets		**7,376**	7,592
Goodwill		**343,111**	380,589
Intangible assets		**627,052**	651,305
Deferred tax assets		**1,246**	1,244
Prepayments		**47,545**	37,743
Loan receivables		**-**	14,414
		4,110,274	4,227,494
Current assets			
Financial asset at fair value through profit or loss		**-**	1,201
Inventories		**539,061**	621,702
Trade and other receivables	*9*	**1,334,182**	1,048,763
Loan receivables		**-**	33,632
Prepaid lease payments		**7,367**	7,947
Pledged bank deposits		**314,618**	38,659
Cash and cash equivalents		**303,356**	653,987
		2,498,584	2,405,891
Current liabilities			
Trade and other payables	*10*	**1,288,157**	1,181,915
Bank borrowings		**2,042,339**	1,962,484
Other loan		**4,201**	-
Obligations under finance leases		**42,041**	43,616
Income tax payable		**47,173**	60,744
		3,423,911	3,248,759
Net current liabilities		**(925,327)**	(842,868)
Total assets less current liabilities		**3,184,947**	3,384,626
Non-current liabilities			
Bank borrowings		**541,514**	762,136
Other loan		**16,806**	-
Convertible bonds		**265,155**	258,629
Deferred tax liabilities		**136,507**	143,877
Amount due to holding company		**23,073**	23,057
Deferred income		**612,748**	634,344
Obligations under finance leases		**132,435**	158,244
		1,728,238	1,980,287
Net assets		**1,456,709**	1,404,339
Capital and reserves attributable to owners of the Company			
Share capital		**19,620**	19,620
Reserves		**1,201,674**	1,140,048
Equity attributable to owners of the Company		**1,221,294**	1,159,668
Non-controlling interests		**235,415**	244,671
Total equity		**1,456,709**	1,404,339

Notes:

1. Review of interim results

The condensed consolidated interim financial statements are unaudited but 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 2015 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 results announcement are consistent with those adopted by the Group in the 2015 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2016. 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 2015 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 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2016.

3. Turnover

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

4. Segment information

For the six months ended 30 June 2016, the Group is principally 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 resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

Geographical information

The Group's operations are mainly located in the People's Republic of China (the "**PRC**") (country of domicile) and it also derives turnover from America, Europe and Asia.

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

	Turnover from external customers		Non-current assets	
	Six months ended 30 June		As at 30 June	As at 31 December
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
The PRC	**1,343,012**	1,163,580	**3,815,041**	3,894,527
America	**104,754**	98,587	**-**	-
Europe	**185,369**	158,139	**-**	-
Asia other than the PRC	**128,309**	135,389	**-**	-
Others	**19,856**	21,206	**-**	-
Total	**1,781,300**	1,576,901	**3,815,041**	3,894,527

Note: Non-current assets excluded available-for-sale financial assets, deferred tax assets and a part of interests in associates.

Information about major customers

For the six months ended 30 June 2016 and 2015, none of the Group's sales to a single customer amounted to 10% or more of the Group's total turnover.

5. Income tax expenses

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**27,512**	23,896
Deferred tax	**(3,513)**	(1,958)
	23,999	21,938

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong Profits tax at the rate of 16.5% (2015: 16.5%) during the reporting period. Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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 (the "**HNTE**") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax (the "**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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging:		
Staff costs comprises:		
- Wages and salaries	**257,123**	195,416
- Retirement benefits schemes contributions	**19,444**	13,689
	276,567	209,105
Depreciation of property, plant and equipment	**95,773**	77,732
Amortisation of prepaid lease payments	**3,883**	3,702
Amortisation of intangible assets	**5,866**	6,153
Total depreciation and amortisation	**105,522**	87,587
Cost of inventories recognised as an expense	**1,019,729**	960,392
Operating leases rentals in respect of land and buildings	**5,887**	5,571
Loss on disposal of property, plant and equipment	**104**	22
Research and development costs	**41,358**	29,978
Written off of property, plant and equipment	**262**	92

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 (2015: Nil).

8. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share calculation	**110,831**	79,130
Effect of dilutive potential ordinary shares:		
- Interest on convertible bonds (net of tax)	**9,548**	10,420
- Deferred tax arising from convertible bonds	**(1,887)**	(2,059)
Earnings for the purpose of diluted earnings per share calculation	**118,492**	87,491

Number of shares	Six months ended 30 June **2016** ***'000*** **(Unaudited)**	 2015 *'000* (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,962,041**	1,962,041
Effect of dilutive potential ordinary shares:		
- Convertible bonds	**244,444**	244,444
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,206,485**	2,206,485

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds was diluted.

9. Trade and other receivables

	30 June 2016 ***HK$'000*** **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Trade receivables, net	**836,768**	465,703
Bills receivables	**141,816**	289,624
Other receivables, deposits and prepayments	**378,605**	315,029
Less: impairment loss on other receivables	**(23,007)**	(21,593)
	1,334,182	1,048,763

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

Within 90 days	**703,069**	412,012
91-180 days	**82,387**	40,645
181-365 days	**51,095**	18,954
Over 365 days	**21,708**	19,026
	858,259	490,637
Less: accumulated impairment	**(21,491)**	(24,934)
	836,768	465,703

10. Trade and other payables

	30 June **2016** ***HK$'000*** **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Trade payables	**291,569**	357,921
Bills payables	**426,726**	295,022
Accrued expenses and other payables	**569,862**	528,972
	1,288,157	1,181,915

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

Within 90 days	**186,798**	266,619
Over 90 days	**104,771**	91,302
	291,569	357,921

11. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is mainly engaged in research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products. The core products of the Group mainly cover three areas including emergency cardiovascular medicines, Eye, Nose & Throat (the "**ENT**") products and those specialized pharmaceutical raw materials which produced with advanced biotechnology, including steroid hormones, amino acids and antibacterial and antiviral pharmaceutical intermediates and specialized raw materials.

The development strategy of the Group is to expand its core product portfolio through internal development and external acquisitions. In June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in 西安碑林藥業股份有限公司(Xian Beilin Pharmaceutical Company Limited[#])(the "**Xian Beilin**") at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is a national hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has been focused on the ENT medicine for many years. Xian Beilin has a modern good manufacturing practice (the "**GMP**") manufacturing plant with eight production lines for five types of formulations including tablets, capsules, granules, powders and pills. Its core products include two series of ophthalmologic and laryngological Chinese medicine which have good reputation and market share in the PRC. The ophthalmic cataract Chinese medicine produced by the Xian Beilin is an exclusive product under the PRC National Medical Insurance Scheme. The existing and developing products of the Xian Beilin will strengthen the Group's leading position in the ENT sector. In particular, the exclusive products of Xian Beilin conform to the Group's unique and enrich our ENT product portfolio. Such acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

In March 2016, the Group entered into an agreement to acquire approximately 1.5% equity interest in Wuhan Kernel Bio Tech Co., Limited (the "**Wuhan Kernel**"), an indirect non-wholly owned subsidiary of the Company, from a non-controlling shareholder at a consideration of RMB3.0 million. Such acquisition was completed in March 2016. In June 2016, the Group entered into another agreement to acquire approximately 16.1% equity interest in Wuhan Kernel from another non-controlling shareholder at a consideration of approximately RMB20.2 million. Such acquisition was completed in July 2016.

On 13 July 2016, the Company has entered into a subscription agreement with Outwit Investments Limited (the "**Outwit**") and East Ocean Capital (Hong Kong) Company Limited (formerly known as Emporium Energy Limited) (the "**Emporium**") for the subscription of 83,056,478 and 24,916,943 ordinary shares of the Company (the "**Shares**") respectively (the "**Connected Subscription**"). The subscription price was HK$1.40 per Share. Immediately preceding the Connected Subscription, Outwit and its associates are interested in 1,228,775,094 Shares, and Outwit is a controlling shareholder of the Company. Emporium is an indirect non-wholly owned subsidiary of China Grand Enterprises Incorporation, which is controlled and ultimately and beneficially owned by Mr. Hu Kaijun, a controlling shareholder of the Company. The completion of the Connected Subscription is subject to the approval of the independent shareholders in a special general meeting of the Company, and as at the date of this announcement, the Connected Subscription has not yet been completed.

On 14 July 2016, the Company has entered into a placing agreement with 2 placing agents namely ICBC International Securities Limited and Sinolink Securities (Hong Kong) Company Limited for the placing of 122,428,000 Shares to not less than six independent investors (the "**Placing**"). The placing price was HK$1.40 per Share. On the same day, the Company also entered into a subscription agreement with GL Healthcare Investment L. P. for the issuance and allotment of 44,570,000 new Shares (the "**GL Subscription**"). The subscription price was HK$1.40 per Share. The Placing was completed in July 2016, and the GL Subscription was completed in August 2016.

The Directors believe the Connected Subscription, the Placing and the GL Subscription will enable the Company to raise additional fund to improve its financial position, broaden its capital and shareholder base and support the Group's future growth. With the fact that the Placing and the GL Subscription had already been completed in July and August respectively and assuming the Connected Subscription will be completed soon, the Company expects to raise net proceeds of approximately HK$381.10 million in total.

In June 2016, the Group has successfully applied to the court to freeze RMB20 million assets of the original shareholders of Tianjin Jingming New Technology Development Co., Ltd. (the "**Tianjin Jingming**"), an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China Food and Drug Administration (中國國家食品藥品監督管理總局) (the "**CFDA**") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoropropane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming (the "**Tianjin Jingming Acquisition Agreement**"), the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group. Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of Tianjin Jingming had already fully indemnified the penalty of approximately RMB5.19 million imposed by the CFDA. As at the date of this announcement, Tianjin Jingming is undertaking certain claim actions for approximately RMB21 million given to the above incident. Given that (i) referring to the opinions from the professional organized by the CFDA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoropropane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group.

Turnover

For the six months ended 30 June 2016, the Group recorded a turnover of approximately HK$1,781.30 million, which was increased by approximately 13.0% compared to the same period of 2015. This is mainly due to the approximately RMB150.29 million contribution from the 北京九和藥業有限公司 (Beijing Jiu He Pharmaceutical Limited[#])(the "**Jiu He**"), which was acquired in July of last year. Furthermore, given the continuous product restructure since 2015, the average gross profit margin of current reporting period is approximately 42.8%, which is 3.7% higher than the same period of 2015.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit of the Group, which the core products are cerebro-cardiovascular, ophthalmic, anti-tumor, antibacterial and antibiotics medicines, etc.. During the six months period ended 30 June 2016, the turnover of pharmaceutical preparations was approximately RMB679.78 million and was increased by approximately RMB187.03 million in comparison with the same period of last year.

- **Cerebro-cardiovascular medicines**

  The cerebro-cardiovascular medicines are the core products and the business growth engine of the Group. During the six months period ended 30 June 2016, the turnover amount of cerebro-cardiovascular medicines was approximately RMB256.79 million, which was increased by approximately 17.3% in comparison with the same period of last year. Norepinephrine Bitartrate injection which is used for emergency purpose recorded the turnover amount of approximately RMB91.39 million and was increased by approximately 28.8% as compared to the same period of last year. Methoxamine Hydrochloride injection, another medicine used for emergency purpose during surgeries, recorded an increment of 22.4% in the turnover amount to approximately RMB43.42 million.

- **ENT medicines**

  During the current review period, the turnover from the ENT medicines was approximately RMB281.26 million, which was increased by approximately 133.2% in comparison with the first six months of 2015. The increment was mainly due to the approximately RMB150.29 million turnover contributed by Jiu He, which was newly acquired in last year. The core product of Jiu He is an exclusive product, which is used in the treatment of chronic rhinosinusitis, acute rhinosinusitis and respiratory diseases, and this is one of the product which will be actively promoted by the Group in the future.

Pharmaceutical Intermediates

The pharmaceutical intermediates are another major products of the Group, while the specialized pharmaceutical raw materials such as amino acid products will become another key selling area. For the period ended 30 June 2016, the turnover of pharmaceutical intermediates was approximately RMB380.41 million, which was approximately 17.9% more than the same period of 2015. This is mainly contributed by the experience of price adjustment in pharmaceutical raw materials in 2015, the Group successfully shifted the key selling area. The turnover of amino acid products was approximately RMB195.80 million, which was increased by approximately 14.6% compared to the same period of 2015. The L-cysteine hydrochloride recorded turnover of approximately RMB55.25 million, with an increment of approximately 24.1% as compared to the same period of last year.

Steroid Hormones and its Intermediates

Certain GMP verification works of steroid hormones intermediates were completed during 2015, and has gradually commenced production and sales since the second half of 2015. During the first half of 2016, the turnover of steroid hormones and its intermediates was approximately RMB125.61 million, which was increased by approximately 11.4% as compared to the same period of last year. It is expected that the sales of the related products will gradually move into the right path, and may continuously provide contribution to the Group.

Other Products

Apart from manufacturing pharmaceutical preparations and pharmaceutical intermediates, the Group also engaged in the manufacturing and sale of other products, such as medical devices, healthcare and chemical products, including ophthalmic medical devices and surgical supplies, Taurine, Calcium Superphosphate and Dimethyl Sulfate and the bio-pesticides and bio-feed additives products, etc., which already have certain market shares and are well recognized by customers. During the first half of 2016, the turnover of the related products was approximately RMB313.14 million, while it was approximately RMB336.44 million during the same period of last year, which is mainly due to the decrease of market price and resulted the turnover of the chemical products reduced by approximately 14.1%.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the period were approximately HK$366.20 million and HK$193.71 million respectively, while it was approximately HK$296.93 million and HK$166.54 million respectively in the same period of last year. The increment was mainly due to the growth of the turnover which led to more distribution costs incurred and also the expansion of the scope of the Group to match with the growing business scale.

Finance Costs

During the first six months in 2016, the finance costs of the Group were approximately HK$85.94 million, while they were approximately HK$64.66 million during the same period of 2015. The increment was mainly due to more bank borrowings and other financing activities to cope with the expansion of the Group and also for general working capital needs.

Outlook and Future Prospects

According to the information from IMS Health Incorporated (the "**IMS**"), the annual sales of global pharmaceutical market amounted to approximately US$989 billion in 2013, representing a CAGR of 4.46% since 2008. IMS anticipates that the CAGR for the five years from 2013 to 2018 will amount to 4-7%. As the largest pharmaceutical market in the world and under the support of the economic recovery and its health care reform act, the United States will achieve a growth of 5-8% from 2013-2018.

IMS expects that the development of emerging pharmaceutical markets of developing countries in the world will continue to be significantly faster than that of the developed countries, with a CAGR of 8-11% from 2014-2018. The PRC pharmaceutical market, accounting for approximately 46% in the emerging pharmaceutical market size, will continue to be an important contributor to the sustainable growth of the market. IMS anticipates a CAGR of 6-9% for the PRC pharmaceutical market from 2016-2020.

According to the information from the National Bureau of Statistics of China, the revenue of the pharmaceutical manufacturing industry in the PRC was approximately RMB 2,553.71 billion, representing a year-on-year growth of 9.1%; the market size continued to expand while the growth showed a slowdown. The development of the PRC pharmaceutical market will be subject to these four important factors: (I) The slowdown in overall growth in economies: The GDP of the PRC in 2015 was 6.9%, showing a slowdown in growth. Accordingly, despite of the year-on-year increase in the proportion of medical and health expenses to GDP in the PRC, the major momentum for future market growth will be changed from relying solely on the increase in government spending to strengthening innovation and reform efforts in this sector. The separation of prescribing from dispensing, the control on medicine fees of hospitals, hierarchical diagnosis and treatment, medical two-ticket system, replacing business tax with value-added tax, quality flight inspection and consistency evaluation of generic drugs will be important factors affecting the development of the pharmaceutical market; (II) The impact of the aging population in the PRC: According to the "China Statistical Yearbook" (《中國統計年鑒》), the aging population aged 65 or above reached 144 million in 2015, representing a growth in the proportion to total population of 10.5% from 7% in 2000, whereas the average medical care expenses for the elderly is around 2 times higher than that for the young people; (III) The structural change in the disease spectrum: Along with the industrialization, aging, urbanization and environmental changes resulting from social development as well as changes in lifestyle in the PRC, the disease spectrum of the population in the PRC also undergoes a number of changes. According to the statistics in the "China Statistical Yearbook" in 2015, the number of deaths caused by malignant tumors and diseases of the cardiovascular, respiratory and metabolic systems accounted for over 80% of the total deaths; (IV) Industry concentration: According to the information from the China National Pharmaceutical Industry Information Center, the concentration rate of the PRC pharmaceutical industry increased to 45% in 2013 from 36% in 2005. To enhance the market efficiency and reduce regulatory costs and risks, the reorganization and merger and acquisition activities between the enterprises or products in the industry tend to be more active.

As the PRC pharmaceutical market is facing forthcoming opportunities and challenges, the Group has and will continue to put more effort in the following fields:

1. Talent Cultivation: The Group has initiated a senior management training program named "GrandPharma Campus", where outstanding management personnel are selected from the existing management personnel of the subsidiaries for comprehensive learning and training regularly in turns, so that they could become senior management who are familiar with the culture and status of the Group with a clear vision of corporate management and practical operating skills in order to provide an extensive and high-end talent pool for any changes in personnel, transformation, breakthrough and development of the Group;

2. Successful Transformation of the Group: After years of consistent organic and external growth, the Group has successfully transformed from an integrated pharmaceutical enterprise with pharmaceutical raw materials and generic drugs as its main products to a professional industry consolidator and leader in the emerging market specialized in segments such as first-aid treatments for ophthalmic, ENT, cardiovascular and cerebrovascular diseases;

3. Two Drivers – Organic and External Growth: The Group has been insisting on investing heavily in the research and development of products, innovation in production techniques and environmental improvement, so as to constantly introduce hi-tech pharmaceutical products and medical devices for the future development of the Group. Meanwhile, the Group pays great attention to any consolidation and reorganization opportunities of enterprises or products in both domestic and overseas pharmaceutical markets. Over the past two years, the Group has successfully acquired domestic enterprises including Jiu He and Xian Beilin, and successfully acquired Cardionovum GmbH, a German-based company which owns globally-advanced cardiovascular interventional medical devices in the international market for the first time; and

4. Introduction of Important Professional and Strategic Partners: In the process of corporate development, the Group has been seeking cooperation and support from prestigious professional organizations in the pharmaceutical market and strategic investment institutions in order to obtain critical external resources for supporting the rapid development of the Group. Over the past year and

a half, the Group has successively introduced prestigious investment institutions including CDH Investments, CDB-RW Funds and GL Capital Group as the shareholders or strategic business partners of the Company. The close cooperation with these institutions has significantly expanded the sources of capital and alternative options for the development path of the Group and provided other investment institutions with an intuitive and effective credit enhancement for growing interest and investing in the Group.

To conclude, the Group will fully utilize its existing position in the PRC pharmaceutical market and the ample room for future development with an aim to become a pharmaceutical enterprise, winning trust and respect from doctors and patients through holding on the principle of putting product quality first while acquiring more hi-tech products and obtaining greater market share. The Group's market leadership in the segments of ENT and cardiovascular and cerebrovascular first aid has gradually established and continues to consolidate, which, to the Group's belief, will bring positive synergy and operating performance for the Group and provides the capital market with a favorable opportunity for revaluating the Group, so as to maximize the returns to its shareholders.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

Employees and Remuneration Policy

As at 30 June 2016, the Group employed 6,063 staff and workers in Hong Kong and the PRC (31 December 2015: 6,117). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Material Acquisitions and Disposals

In June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in Xian Beilin at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is anational hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has focused on the ENT medicine for many years. Such acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

Subsequent Events

On 13 July 2016, the Company has entered into a subscription agreement with Outwit and Emporium for the subscription of 83,056,478 and 24,916,943 Shares respectively. The subscription price was HK$1.40 per Share. As at the date of this announcement, the Connected Subscription has not yet been completed.

On 14 July 2016, the Company has entered into a placing agreement with 2 placing agents for the placing of 122,428,000 Shares to not less than six independent investors. The placing price was HK$1.40 per Share. On the same day, the Company also entered into a subscription agreement with GL Healthcare Investment L. P. for the issuance and allotment of 44,570,000 Shares. The subscription price was HK$1.40 per Share. The Placing was completed in July 2016 and the GL Subscription was completed in August 2016.

With the fact that the Placing and the GL Subscription had already been completed in July and August respectively and assuming the Connected Subscription will be completed soon, the Company expects to raise net proceeds of approximately HK$381.10 million in total.

Save as disclosed above, no other subsequent events occurred after 30 June 2016, 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 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 2016.

Code of Corporate Governance Practices

The Company has complied with all of the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2016.

Audit Committee

The Company has established the audit committee for the purpose of monitoring the integrity of the financial statements and reports, and overseeing the financial controls, risk management and 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 2016 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, 29 August 2016

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.

The English transliteration of the Chinese name(s) in this announcement, 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 identification purpose only.*