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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)

2017 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 2017 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 2017

		Six months ended 30 June	
	Note	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Turnover	3	2,275,005	1,781,300
Cost of sales		(1,120,918)	(1,019,729)
Gross profit		1,154,087	761,571
Other revenue and income		30,400	25,988
Distribution costs		(587,171)	(366,195)
Administrative expenses		(239,601)	(193,710)
Other operating expenses		(5,768)	(5,866)
Share of results of associates		24	(4,950)
Finance costs		(85,140)	(85,939)
Profit before tax		266,831	130,899
Income tax expense	4	(42,430)	(23,999)
Profit for the period	5	224,401	106,900

		Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
	<i>Note</i>	(Unaudited)	(Unaudited)
Other comprehensive income/(loss), net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations		<u>56,946</u>	<u>(48,445)</u>
Other comprehensive income/(loss) for the period, net of income tax		<u>56,946</u>	<u>(48,445)</u>
Total comprehensive income for the period, net of income tax		<u>281,347</u>	<u>58,455</u>
Profit/(loss) for the period attributable to:			
- Owners of the Company		205,905	110,831
- Non-controlling interests		<u>18,496</u>	<u>(3,931)</u>
		<u>224,401</u>	<u>106,900</u>
Total comprehensive income/(loss) for the period attributable to:			
- Owners of the Company		262,762	62,533
- Non-controlling interests		<u>18,585</u>	<u>(4,078)</u>
		<u>281,347</u>	<u>58,455</u>
Dividend	6	<u>-</u>	<u>-</u>
Earnings per share	7		
- Basic (HK cents)		<u>9.20 cents</u>	<u>5.65 cents</u>
- Diluted (HK cents)		<u>8.67 cents</u>	<u>5.37 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		2,703,983	2,643,606
Investment properties		46,897	45,650
Prepaid lease payments		280,785	276,787
Interests in associates		243,121	231,552
Available-for-sale financial assets		96,738	94,166
Deposit for acquisition of non-current assets		41,107	38,874
Goodwill		492,715	481,075
Intangible assets		815,922	796,418
Deferred tax assets		-	1,160
Prepayments		49,547	51,566
		4,770,815	4,660,854
Current assets			
Financial asset at fair value through profit or loss		8,059	11,206
Inventories		677,816	636,226
Trade and other receivables	8	1,677,748	1,310,067
Prepaid lease payments		8,410	8,332
Pledged bank deposits		51,422	30,844
Cash and cash equivalents		457,074	484,418
		2,880,529	2,481,093
Current liabilities			
Trade and other payables	9	1,489,578	1,363,970
Bank and other borrowings		2,191,206	1,663,874
Obligations under finance leases		51,235	48,220
Amounts due to related companies		-	21,680
Income tax payable		58,889	59,579
		3,790,908	3,157,323
Net current liabilities		(910,379)	(676,230)
Total assets less current liabilities		3,860,436	3,984,624
Non-current liabilities			
Bank and other borrowings		318,610	713,825
Convertible bonds		285,205	276,453
Bond payables		114,411	111,237
Deferred tax liabilities		190,943	189,082
Amount due to holding company		23,225	23,247
Deferred income		603,363	585,500
Obligations under finance leases		86,148	109,193
		1,621,905	2,008,537
Net assets		2,238,531	1,976,087

	<i>Note</i>	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Capital and reserves attributable to owners of the Company			
Share capital		22,370	22,370
Reserves		<u>1,936,783</u>	<u>1,680,064</u>
Equity attributable to owners of the Company		<u>1,959,153</u>	<u>1,702,434</u>
Non-controlling interests		<u>279,378</u>	<u>273,653</u>
Total equity		<u><u>2,238,531</u></u>	<u><u>1,976,087</u></u>

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 2016 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 2016 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2017. 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 2016 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 2016 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2017.

3. Revenue and Segment information

For the six months ended 30 June 2017, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other 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.

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

Geographical information

The Group’s operations are mainly located in the 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 revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
The PRC	1,795,225	1,343,012	4,430,116	4,341,311
America	130,754	104,754	-	-
Europe	185,785	185,369	-	-
Asia other than the PRC	144,260	128,309	-	-
Others	18,981	19,856	-	-
Total	<u>2,275,005</u>	<u>1,781,300</u>	<u>4,430,116</u>	<u>4,341,311</u>

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 2017 and 2016, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

4. Income tax expenses

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

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	44,291	27,512
Deferred tax	<u>(1,861)</u>	<u>(3,513)</u>
	<u>42,430</u>	<u>23,999</u>

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% (2016: 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.

5. Profit for the period

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging:		
Staff costs comprises:		
- Wages and salaries	361,523	257,123
- Retirement benefits schemes contributions	25,207	19,444
	386,730	276,567
Depreciation of property, plant and equipment	109,921	95,773
Amortisation of prepaid lease payments	3,646	3,883
Amortisation of intangible assets	5,768	5,866
Total depreciation and amortisation	119,335	105,522
Cost of inventories recognised as an expense	1,120,918	1,019,729
Operating leases rentals in respect of land and buildings	6,598	5,887
Loss on disposal of property, plant and equipment	133	104
Research and development costs	46,368	41,358
Written off of property, plant and equipment	214	262

6. 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 (2016: Nil).

7. 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	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share calculation	205,905	110,831
Effect of dilutive potential ordinary shares:		
- Interest on convertible bonds (net of tax)	11,442	9,548
- Deferred tax arising from convertible bonds	(2,261)	(1,887)
Earnings for the purpose of diluted earnings per share calculation	215,086	118,492

	Six months ended 30 June	
	2017 '000 (Unaudited)	2016 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	2,237,012	1,962,041
Effect of dilutive potential ordinary shares:		
- Convertible bonds	<u>244,444</u>	<u>244,444</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>2,481,456</u>	<u>2,206,485</u>

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.

8. Trade and other receivables

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade receivables, net	1,124,115	696,607
Bills receivables	211,703	362,025
Prepayments	159,490	141,152
Deposits paid	921	577
Other tax receivables	22,028	38,301
Other receivables, net	<u>159,491</u>	<u>71,405</u>
	<u>1,677,748</u>	<u>1,310,067</u>

The Group generally allows a credit period of 30 – 180 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	946,457	406,881
91-180 days	124,110	57,964
181-365 days	56,088	237,799
Over 365 days	<u>35,806</u>	<u>29,712</u>
	1,162,461	732,356
Less: accumulated impairment	<u>(38,346)</u>	<u>(35,749)</u>
	<u>1,124,115</u>	<u>696,607</u>

9. Trade and other payables

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade payables	407,749	360,695
Bills payables	211,638	341,102
Accruals and other payables	640,491	473,646
Deposits received	-	801
Other tax payables	103,115	110,579
Receipts in advance	126,585	77,147
	<u>1,489,578</u>	<u>1,363,970</u>

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	257,997	227,327
Over 90 days	149,752	133,368
	<u>407,749</u>	<u>360,695</u>

10. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products. The core pharmaceutical and medical devices products of the Group mainly applied in the cerebro-cardiovascular emergency used and Ear, Nose, Throat & Eye (the “ENT”) treatments.

After years of unremitting efforts, the Group has become one of the largest suppliers in the PRC cerebro-cardiovascular emergency used and the ENT segments. With the efforts in the past year and through various academic activities, a few core products of the Group obtained consensus from the experts of the field and being recommended by the medication guide. Our image of being the leader in individual market sub-segments is generally accepted and appreciated by the market. Furthermore, various products of the Group were maintained or being newly included in the “National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)”, and the sales volume continuously increased in line with the development of the market. All these factors are the solid foundation of the rapid growth in the operating results of the Group during this period. On the other hand, the Group has put efforts in the reduction of liabilities and finance costs, and also fine-tune the product structure and increase the gross profit margin. All these resulted the gratifying progress in the operation efficiency and management standard.

For the six months period ended 30 June 2017, the turnover of the Group was approximately HK\$2,275.01 million and the profit attributable to the owners of the Company was approximately HK\$205.91 million, and was increased by approximately 27.7% and 85.8% as compared with the same period of 2016 respectively. However, if taken out the depreciation effect of RMB as compared with the same period of last year, the revenue of the Group and the profit attributable to the owners of the Company was increased by approximately 34.2% and 96.3% respectively. In addition, given the Group issued shares in the second half of last year for raising funds mainly applied in the acquisition of 西安碑林藥業股份有限公司 (Xian Beilin Pharmaceutical Company Limited[#]) (the “**Xian Beilin**”), as a result the number of issued shares of the Company during this period was enlarged by approximately 14.0% as compared with the same period of last year.

The main reason of recording good results during the period is mainly attributable to (among other things) the mid-to-long term development strategy of the Group has steadily contributed significant returns. First, the product categories of the core products are enlarged through internal research and development and also merge and acquisition, and our innovated products and core products are gradually introduced into the market, hence increased our product competitiveness and the synergy effects are reflected. Second, the strategy of supply chain integration from research and development, manufacturing of raw materials and final products, to the sales and marketing is in line with the market trend of cutting-down the redundant production capacity and the extension of the product cycle, and the Group captured the opportunity of the increment of market price of pharmaceutical raw materials, bio-technology products and nutrition products, and the resulted price increments of pharmaceutical preparations, and thus the revenue of both the pharmaceutical raw materials and pharmaceutical preparations recorded fruitful results. Third, the investments in Xian Beilin (which was acquired by the Group in the second half of 2016) and 北京九和藥業有限公司 (Beijing Jiu He Pharmaceutical Limited[#]) (which was acquired by the Group in 2015) (the “**Beijing Jiu He**”) have returns as expected and the revenue of their core products maintained good improvement.

The investment in the research and development of new products during the past years has continuously provided returns. During the first half of 2017 the Group obtained 1 production approval, 9 technology transfer approvals, applied 5 invention patents and obtained 2 licensing approvals. In the meanwhile, the clinical trials in the PRC of the cardiovascular interventional medical devices jointly developed by the Group and the associates Cardionovum GmbH located in Germany are on the way smoothly. The clinical trial recruitment program of all 5 products are already launched, and the Group together with the market are expecting these products can complete registration in 2018 and can provide patients the advanced drug-eluting balloon products with international standard. The Group will continuously invest more in the product research and development. For the on-going research and development projects, there are more than 20 cases for cerebro-cardiovascular and ENT drugs, and also 5 cases for orphan drugs. There are also a few production technique improvement projects for bio-technology products and tailor-made pharmaceutical raw materials.

For the aspect of international corporation, during the first half of 2017 the Group has entered into an agreement with a world-wide famous enterprise Mitsui & Co., Ltd. (the “**Mitsui**”) for the introduction of Mitsui as a 4.9% shareholder of Wuhan Kernel Bio-tech Co., Ltd. (the “**Wuhan Kernel**”), an indirect non-wholly owned subsidiary of the Company, at a consideration of approximately RMB 12.7 million. Wuhan Kernel has been exporting bio-technology products in the aspects of agricultural and animal husbandry for several years. The introduction of Mitsui as a shareholder may further strengthen the relationship with each other, and it is expected that this can bring new products and markets to Wuhan Kernel and help Wuhan Kernel to enhance its fermentation technique. This transaction has been approved by the relevant government authority in July 2017.

With reference to the disclosure in the 2016 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the “**Tianjin Jingming**”), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Group. During the first half of 2017, the court has concluded 13 cases, and Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB4.3 million in according to the court order. As at the date of this announcement, the other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the “**Actual Profit**”) from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the “**Performance Guarantee**”). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB 21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming.

Revenue

For the six months ended 30 June 2017, the Group recorded the revenue of approximately HK\$2,275.01 million, which was increased by approximately 27.7% compared to the same period of 2016. The main reasons for the increment of revenue were mainly contributed to: first, a few core products of the Group obtained consensus from the experts of the field and being recommended by the medication guide and thus resulted the improvement of sales; second, the Group is benefit from the increment of market price of bio-technology products and nutrition products due to the improvement of technology and the enhancement of the quality, and also the cutting-down of redundant production capacity of pharmaceutical raw materials resulted the rise of market price; third, Xian Beilin, which was acquired by the Group in the second half of 2016, has provided contributions. Furthermore, the Group always devotes efforts in the development of more advanced, bigger market potential and larger gross profit margin pharmaceutical preparations and medical devices for ENT and cerebro-cardiovascular emergency use. As the portion of these high gross profit margin products increased from approximately 45.8% in the first half of 2016 to approximately 54.1% in the current period, the average gross profit margin of the Group reached approximately 50.7% during the current review period, and it was approximately 7.9 percent point more than the approximately 42.8% during the same period of 2016.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical preparations and medical devices are the major sources of profit of the Group, the core products include cerebro-cardiovascular medicines and medical devices, ENT medicines and medical

devices, etc. For the six months period ended 30 June 2017, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB1,087.88 million with the increment of approximately 58.4% as compared with approximately RMB686.68 million in the same period of 2016.

- *Cerebro-cardiovascular medicines and medical devices*

The Group's cerebro-cardiovascular emergency medicines mainly cover the field of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the pioneer position of the PRC market. For the six months period ended 30 June 2017, the revenue of the Group's cerebro-cardiovascular medicines was approximately RMB309.38 million, increased by approximately 20.5% as compared with the same period of last year. Among this sector, the core products such as Xin Wei Ning, Nuo Fu Kang, Rui An Ji and Li Shu An contributed revenue of approximately RMB286.06 million in aggregate, which was increased by approximately 24.4% as compared with the same period of 2016. The continuous growth was mainly due to a few core products of the Group obtained consensus from the experts of the field and being recommended by the medication guide as a result of various academic activities. Also our core products are generally accepted by the market, and being relied by doctors and patients.

- *ENT medicines and devices*

The Group devotes to build the most comprehensive supply chain of ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, devices, consumables, nutrition products, etc., and providing an all-round means of treatment and care to doctors and patients. For the six months ended 30 June 2017, the revenue of ENT medicines and devices recorded approximately RMB618.45 million with a growth of approximately 117.9% as compared with the same period of last year. This was benefit from the substantial growth of the two major sub-sectors of the ENT field, in which:

- Ophthalmic: the revenue from the ophthalmic products was approximately RMB255.96 million during the first half of 2017, with an increment of approximately 133.8% as compared to the approximately RMB109.50 million in the same period of 2016. This is mainly due to the contribution from the newly joined Xian Beilin. Also the new formulation of Bai Nei Ting series also resulted approximately 60.4% increment in compare with the same period of last year. There are certain numbers of high quality products which are the Group's exclusive products or being protected by the Chinese medicine patents. The Group has become one of the largest medical products suppliers in the ophthalmic treatment sector in the PRC.
- Respiratory and ENT: for the six months period ended 30 June 2017, the revenue of the respiratory and ENT products of the Group was approximately RMB362.49 million, with an increment of approximately 108.0% as compared to the approximately RMB174.31 million in the same period of last year. Qie Nuo of Beijing Jiu He (which the Group acquired in 2015) and Jin Sang series of Xian Beilin (which the Group newly acquired in 2016) are the major catalysts. Qie Nuo and Jin Sang series have been listed in the latest 2017 edition of the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement, which may secure the future growth in the operating results of the Group.

Bio-technology Products and Nutrition Products

The core products of the bio-technology products and nutrition products include Taurine, amino acid products, bio-pesticides, bio-feed additives and steroid products, etc. The revenue during the first half of 2017 was approximately RMB587.26 million, increased by approximately 15.4% as compared with the same period of last year. Among which the unit price of Taurine products increased and thus the revenue amount increased by approximately 67.6% as compared with the same period of last year. The amino acids products fulfilled the standard of European Union and have been recognized by core customers, and thus the revenue amount increased by approximately 8.6%. Given the intensive competition of the steroid products market, it is resulted that the revenue of the current period decreased by approximately 12.0% as compared with the same period of last year. With the view of further enhancement of quality control system and the manufacturing management of the field fulfilled the GMP standards, and also the continuous product portfolio restructuring, it is expected that the product efficiency of this field can be enhanced and can gain more market shares, as a result to increase the

turnover and profit amount.

Specialized Pharmaceutical Raw Materials and Other Products

Specialized pharmaceutical raw materials and other products are the comparatively stable sector among the three core product sectors of the Group. The Group has always been investing on improving the product technology, enhancement of product quality, reformation in the production technique and minimizing the effect to the environment. With the benefit of the fully utilization of production capacity of the market and also the extension of the product cycle, the turnover and the unit price recorded a larger increment. During the first six months of 2017 it recorded a turnover amount of approximately RMB337.07 million with an increment of approximately 11.2% as compared with the same period of last year.

During the first half of 2017, there were 2 specialized pharmaceutical raw materials obtained the EDQM certificates, while the market shares of the chemical products in the South East Asia market were continuously increased as a return from the efforts of previous years. All these factors are expected to provide contributions to the Group in the remaining time of this year.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the period were approximately HK\$587.17 million and HK\$239.60 million respectively, while it was approximately HK\$366.20 million and HK\$193.71 million respectively in the same period of last year. The increment of the distribution costs was mainly due to the newly acquired companies have put more efforts in the marketing promotion and the Group is focusing in the development of local and overseas market, and thus resulted the increment of costs. In the meanwhile the Group is continuously undertaking restructuring in order to enhance production efficiency and improve the management quality, which resulted the increment of administrative expenses.

Finance Costs

For the six months period ended 30 June 2017, the finance costs of the Group were approximately HK\$85.14 million, while they were approximately HK\$85.94 million during the same period of 2016. The Group is working on the changing of bank loans portfolio and considering different fund raising method in order to cope with the development of the Group and reduce the related costs.

Outlook and Future Prospects

The past two years represents an important stage in the development of China's pharmaceutical industry. Reforms of the pharmaceutical industry are in full swing and have reached a key stage. Those reforms cover every aspect of the industry chain including doctors, hospitals and healthcare insurance services,, such as reformation regarding the medical practice of doctors, the separation of prescribing from dispensing, the abolishment of markups on drug prices, the promotion of the establishment of a pilot integrated medical system and hierarchical diagnosis system, the consolidation of three medical insurance programs into one and reform on medical care payment, rational use of medicines, medical cost containment, drug admittance regulations, consistency evaluation of generic drugs, medical two-ticket system etc. With structural adjustment replacing the pursuit of rapid growth as the future direction of the Chinese economy, it is expected that immense development opportunity for the pharmaceutical market would arise from the implementation of universal two-child policy and China's aging population.

According to the information provided by China Southern Medicine Economy Research Institute, China's pharmaceutical end market sales in the first half of 2017 was approximately RMB 803.7 billion, representing a growth of 7.8% when compared with the previous year and the growth rate represented a decrease of 0.5 percent point when compared with the previous year, indicating that the market has been moving away from the adjustment stage in the pharmaceutical reform. It is reflected in the following aspects: the benefits of system reform gradually began to realize, acceleration of new drug approval by CFDA, the increase of growth points for the industry, corporate brand premium began to materialize, production capacity of the active pharmaceutical ingredients industry is utilized and results of supply side structural reform becoming evident.

The Group has always attached great importance to the improvement of reserves and quality of product varieties, adhered to the product diversification strategy with dual-focus on independent research and

development as well as capitalizing on mergers and acquisitions opportunities, adhered to the industry value chain strategy of product research and development, active pharmaceutical ingredients and finished product manufacturing and conducting sales through its own channels. With the Chinese pharmaceutical market has been gradually freed from competition over sales volume and price in the past and moved onto the normal trajectory of competition over brand equity and service, the core product diversification strategy and industry value chain strategy of the Group as mentioned above have achieved important results. In particular, the Group has organized and conducted various marketing and promotion campaigns targeting academics over the past year to strengthen the leadership position and branding of the Group itself and its products, resulting in various core products being admitted into respective fields of treatment with expert consensus and being included in medication guidelines, with up to 203 kinds of products are now included in the latest version of National Medical Insurance Drugs Catalogs. This eventually allows the Group's products to gain more widely market recognition and achieve rapid sales growth for the Group.

Meanwhile, with stringent environmental protection measures continuously enforced in China, production capacity of certain active pharmaceutical ingredients industry participants fully utilized after cutting-down the redundancy, the cycle for this cyclical industry being extended, overall increase in prices of active pharmaceutical ingredients resulting in uplift in prices of common generic drugs, these structural improvements of the pharmaceutical industry in China are in line with the Group's long-standing strategy for industry chain and have also become the driving force behind the Group's rapid growth. It will also contribute to the Group's long-term and stable growth.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2017, 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 2017, the Group employed 7,498 staff and workers in Hong Kong and the PRC (31 December 2016: 7,369). 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.

Events after the Reporting Period

Save as disclosed above, no other subsequent events occurred after 30 June 2017, 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 2017.

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 2017.

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 2017 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, 17 August 2017

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. Niu Zhanqi 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.*