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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)

2019 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 2019 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 2019

		Six months ended 30 June	
	Note	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	3,587,058	3,235,952
Cost of sales		<u>(1,314,579)</u>	<u>(1,368,620)</u>
Gross profit		2,272,479	1,867,332
Other revenue and income		71,900	32,553
Distribution costs		(1,259,668)	(1,103,298)
Administrative expenses		(329,826)	(272,265)
Other operating expenses		(2,930)	(8,402)
Share of results of associates		12,433	(1,964)
Finance costs		<u>(84,901)</u>	<u>(104,374)</u>
Profit before tax		679,487	409,582
Income tax expense	4	<u>(123,933)</u>	<u>(71,276)</u>
Profit for the period	5	<u>555,554</u>	<u>338,306</u>

		Six months ended 30 June	
		2019	2018
		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>85,168</u>	<u>(31,601)</u>
Other comprehensive income/(loss) for the period, net of income tax		<u>85,168</u>	<u>(31,601)</u>
Total comprehensive income for the period, net of income tax		<u>640,722</u>	<u>306,705</u>
Profit for the period attributable to:			
- Owners of the Company		546,957	315,433
- Non-controlling interests		<u>8,597</u>	<u>22,873</u>
		<u>555,554</u>	<u>338,306</u>
Total comprehensive income for the period attributable to:			
- Owners of the Company		631,465	283,644
- Non-controlling interests		<u>9,257</u>	<u>23,061</u>
		<u>640,722</u>	<u>306,705</u>
Dividend	6	<u>-</u>	<u>-</u>
Earnings per share	7		
- Basic (HK cents)		<u>17.22</u>	<u>13.74</u>
- Diluted (HK cents)		<u>17.22</u>	<u>12.89</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
	Note		
Non-current assets			
Property, plant and equipment		3,207,847	2,876,443
Investment properties		75,174	74,228
Prepaid lease payments		-	267,953
Interests in associates		5,057,914	5,309,989
Equity instruments at fair value through other comprehensive income		93,075	96,526
Deposit for acquisition of non-current assets		-	39,491
Goodwill		505,023	487,848
Intangible assets		828,193	815,998
Deferred tax assets		14,265	14,290
Prepayments		100,625	84,841
		9,882,116	10,067,607
Current assets			
Financial asset at fair value through profit or loss		76,675	45,605
Inventories		752,421	770,329
Trade and other receivables	8	2,074,489	1,609,311
Amounts due from related companies		4,780	10,832
Prepaid lease payments		-	7,216
Pledged bank deposits		27,952	73,515
Cash and cash equivalents		965,222	912,244
		3,901,539	3,429,052
Current liabilities			
Trade and other payables	9	2,098,888	2,342,539
Contract liabilities		125,754	156,432
Lease liabilities		6,096	-
Bank and other borrowings		1,806,869	1,967,352
Convertible bonds		-	284,725
Obligations under finance leases		40,646	54,097
Amounts due to related companies		11,881	10,529
Amounts due to immediate holding company		4,632	17,603
Income tax payable		152,883	133,571
		4,247,649	4,966,848
Net current liabilities		(346,110)	(1,537,796)
Total assets less current liabilities		9,536,006	8,529,811
Non-current liabilities			
Bank and other borrowings		474,537	187,486
Bond payables		113,671	113,562
Deferred tax liabilities		176,838	179,012
Deferred income		595,638	595,894
Obligations under finance leases		6,358	19,230
		1,367,042	1,095,184
Net assets		8,168,964	7,434,627

	<i>Note</i>	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Capital and reserves attributable to owners of the Company			
Share capital		33,775	31,348
Reserves		<u>7,884,122</u>	<u>7,159,611</u>
Equity attributable to owners of the Company		<u>7,917,897</u>	<u>7,190,959</u>
Non-controlling interests		<u>251,067</u>	<u>243,668</u>
Total equity		<u>8,168,964</u>	<u>7,434,627</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 2018 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 financial information relating to the financial year ended 31 December 2018 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 2018 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2019.

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 2018 annual accounts, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for the annual periods beginning 1 January 2019. The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position, except the adoption of HKFRS16 Lease under as described below:

On 1 January 2019, the Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application.

3. Revenue and Segment information

For the six months ended 30 June 2019, 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 revenue 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 2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
The PRC	2,867,224	2,479,439	6,764,937	6,744,831
America	185,115	181,067	-	-
Europe	307,038	281,662	-	-
Asia other than the PRC	200,046	254,190	-	-
Others	27,635	39,594	-	-
Total	3,587,058	3,235,952	6,764,937	6,744,831

Note: Non-current assets excluded deferred tax assets and a part of interests in associates.

Information about major customers

For the six months ended 30 June 2019 and 2018, 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	126,057	69,861
Deferred tax	(2,124)	1,415
	123,933	71,276

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% (2018: 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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging:		
Staff costs comprises:		
- Wages and salaries	535,549	493,991
- Retirement benefits schemes contributions	32,147	29,897
	567,696	523,888
Depreciation of property, plant and equipment	113,877	113,526
Amortisation of prepaid lease payments	-	3,949
Amortisation of intangible assets	2,930	8,402
Total depreciation and amortisation	116,807	125,877
Cost of inventories recognised as an expense	1,314,579	1,368,620
Operating leases rentals in respect of land and buildings	8,455	7,157
Loss on disposal of property, plant and equipment	191	95
Research and development costs	95,625	107,813
Written off of property, plant and equipment	311	441

6. Interim dividend

During the six months ended 30 June 2019, the Board declared and paid HK\$0.086 per share or approximately HK\$290.47 million in aggregate as final dividend for the year ended 31 December 2018 (2017: Nil).

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share calculation	546,957	315,434
Effect of dilutive potential ordinary shares:		
- Interest on convertible bonds (net of tax)	-	11,375
- Deferred tax arising from convertible bonds	-	(2,248)
	<u>546,957</u>	<u>324,561</u>
Earnings for the purpose of diluted earnings per share calculation	<u>546,957</u>	<u>324,561</u>
	Six months ended 30 June	
	2019	2018
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,175,893	2,295,188
Effect of dilutive potential ordinary shares:		
- Convertible bonds	-	222,222
	<u>3,175,893</u>	<u>2,517,410</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>3,175,893</u>	<u>2,517,410</u>

For the six months ended 30 June 2018, 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	31 December
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables, net	1,365,550	928,865
Bills receivables	370,423	313,659
Prepayments	207,000	258,028
Deposits paid	1,925	469
Other tax receivables	17,907	30,852
Other receivables, net	<u>111,684</u>	<u>77,438</u>
	<u>2,074,489</u>	<u>1,609,311</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.

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables	1,442,998	989,669
Less: Allowance for credit loss	(77,448)	(60,804)
	<u>1,365,550</u>	<u>928,865</u>

The ageing analysis of the trade receivables is as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 90 days	1,253,358	831,589
91-180 days	103,339	73,678
181-365 days	8,853	23,598
	<u>1,365,550</u>	<u>928,865</u>

9. Trade and other payables

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade payables	395,897	394,506
Bills payables	303,634	661,370
Accruals and other payables	1,297,837	1,137,896
Other tax payables	101,520	148,767
	<u>2,098,888</u>	<u>2,342,539</u>

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 90 days	226,909	267,262
Over 90 days	168,988	127,244
	<u>395,897</u>	<u>394,506</u>

10. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2019 (2018: 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, specialized pharmaceutical raw materials and nutrition products. The core pharmaceutical and medical devices products of the Group mainly applied in the cerebro-cardiovascular emergency, Ear, Nose & Throat as well as Eye (the “ENT”) treatments and selective internal radio therapy for tumor treatment.

The development strategy of the Group is expanding the product portfolio through internal research and development and external investment and acquisition, and also enhancing the synergy effect and operation efficiency through effective resources allocation. After years of unremitting efforts, the Group has become one of the largest suppliers in the PRC in the fields of cerebro-cardiovascular emergency and ENT sub-divisions. The Group has put efforts in fine-tuning the products structure in recent years and mainly focused on four business scope, namely innovative drugs with high entry barriers, branded drugs, pharmaceutical raw materials and preparations integration and health products. Among these categories, innovative drugs with high entry barriers such as ENT product “Qie Nuo”, which are high gross profit margin products, will be the growing point of financial results. For the six months ended 30 June 2019, the revenue of the Group was approximately HK\$3,587.06 million, and the profit attributable to the owners of the Company was approximately HK\$546.96 million, which were increased by approximately 10.9% and 73.4% respectively as compared with the same period of 2018. If disregarding the depreciation of RMB, for the six months ended 30 June 2019 the revenue of the Group increased by approximately 18.1% and the profit attributable to the owners of the Company increased by approximately 86.8% as compared to the same period of last year.

During the second half of 2018, the Group completed an acquisition and obtained 55% equity interests of Shanghai Xudong Haipu Pharmaceutical Co., Ltd (“**Xudong Haipu**”). Xudong Haipu is mainly engaged in manufacturing and sales of pharmaceutical preparations for injection with various volumes, and its core products covering nearly a hundred different medical products in more than 10 major pharmaceutical categories such as emergency medication, cerebro-cardiovascular, respiratory products, etc. Its results maintained constant growth during the period. For the first half of 2019, its unaudited operating revenue was approximately RMB568.91 million.

In 2018 there was another material acquisition, in which the Group obtained 49% equity interests of Sirtex Medical Limited (“**Sirtex**”), a global life science company. Its main product SIR-Spheres Y-90 resin microspheres, is a selective radiotherapy for liver cancer, which uses the microsphere technology to directly transmit the radiations into the affected hepatic tissues. Up to June 2019, it already reached the milestone of 100,000th patient dose delivery. This product is included in new version of EASL Clinical Practice Guidelines: Management of hepatocellular carcinoma published in 2018, and the Diagnosis Management and Treatment of Hepatocellular Carcinoma published by the National Health and Family Planning Commission of China in 2017. It accumulated years of effective clinical experience and information, which may have positive impact on the registration in the PRC. Currently the China Sirtex registration project is actively processing. For the first half of 2019, its unaudited operating revenue was equivalent to approximately USD80.31 million.

Other than the existing products, the Group is also actively exploring new markets, and developing and introducing new products. In February 2019, the Group entered into an exclusive license agreement with Glenmark Specialty S.A. (“**Glenmark**”), a Swiss innovative pharmaceutical research and development institution. The Group was licensed to exclusively sell Ryaltris, a compound nasal spray being developed by Glenmark, in the PRC for a period of 20 years. Such compound nasal spray applied the integration of glucocorticoid and antihistamine drugs. The clinical trial results prove that its treatment result is better than those using single formula and also substantially minimize the side effects. It is expected to be a better treatment option for allergic rhinitis patients. This product is in the approval and information provision status under U.S. Food and Drug Administration (“**FDA**”), and at the same time the clinical trial proposal in China is under design stage. The introduction of Ryaltris will strategically supplement the product offerings of the Group in ENT and represent the obtaining of a new international ENT product by the Group, thus improving the core product competitiveness of the Group.

The clinical trial in PRC for three drug-eluting balloon products of CARDIONOVUM GmbH, an associated company of the Group, already had preliminary results. Clinical trial results for two indications of RESTORE series product under the coronary artery aspect had been announced in 2018, and it is waiting the review and approval for other documentations. Another product APERTO under the

hemodialysis arteriovenous fistula aspect had also announced the clinical trial research results and submitted the PRC registration information, and the registration review and approval procedures is on-going. The marketing work has been on the way and will commercially launch soon after being approved.

In the second half of 2017 the Group invested in a Canada company Conavi Medical Inc. and obtained the exclusive distribution rights in the PRC for 2 internationally innovative equipment NOVASIGHT Hybrid and FORESIGHT ICE used for heart and cerebro-cardiovascular interventional inspection. NOVASIGHT Hybrid, an intravascular ultrasound optical coherence tomography system, has been enrolled into the “green channel” of special review approval process of innovative medical device in February 2019. This product is now preparing the registration process of localization in the PRC, and it is hoped that such product can be commercially launched soon and provide accurate and convenient treatment tool and technique for patients and doctors.

For the aspect of self-research and development, the Group obtained various patents in the first half of 2019, including 8 invention patents, 5 utility model patents and 5 design patents. There are now over 30 R&D projects that are on the pipeline mainly focusing on the core development segments, including the cerebro-cardiovascular drugs, ENT drugs, medical devices and the niche market orphan drugs. Since 2014, the Group has been co-developing many orphan drugs with Chinese Academy of Medical Sciences (中國醫學科學院), of which our self-developed Carglumic Acid Tablet, which is used for treatment of hyperammonemia, and Vigabatrin Tablet, which is used for treatment of complex partial seizures and for infantile spasms, have both been included in the priority list for drug examination and approval and thus will speed up the registration review and approval progress.

In view of the constant growth of operation results of the Group, and the Group has issued shares for financing the acquisition of equity interests of Sirtex and Xudong Haipu in 2018, and resulted a substantial enhancement of asset-liability proportion and more sufficient working capital, and thus the Company distributed dividend of HK\$0.086 per share to qualified shareholder in June 2019 with the aggregate amount of approximately HK\$290 million. The Company aims to maintain such cash dividend policy with the support of constant growth in operation results in the future, and provides fruitful return to shareholders.

With reference to the disclosure in the 2016, 2017 and 2018 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 Company. Up to 30 June 2019, the court has concluded 49 cases, and Tianjin Jingming has appealed 17 cases against the judgement of first instance with aggregate compensation of approximately RMB17.70 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB11.37 million in according to the court order. 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 until 30 June 2015, and GrandPharma (China) Co., Ltd. is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered and is under second instance. 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 and received the final judgement from the court in February 2018. 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 RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. However, the vendors subsequently applied for rehearing of the aforesaid judgement, and the matter will be reheard according to the court’s judgement, which is

currently scheduling.

As a result of the efforts of previous years, the Group has become one of the leading enterprises in the ENT sectors in the PRC, and has become a well-known enterprise with significant impact in the cerebro-cardiovascular emergency sector. We have confidence that once the various products of Sirtex and CARDIONOVUM GmbH completed the registration in the PRC, the Group will become one of the enterprises which own internationally innovative blockbuster products in the aspect of interventional internal radiotherapy for cancer treatment and cerebro-cardiovascular interventional treatment in the PRC.

Revenue and net profit

For the six months ended 30 June 2019, the Group recorded a revenue amount of approximately HK\$3,587.06 million, and was increased by approximately 10.9% as compared with the same period of 2018. The increment of the revenue is mainly due to the Group vigorously develops specialized pharmaceutical products with large market and high-entry barriers, exclusive or protected pharmaceutical products and branded pharmaceutical products, especially the pharmaceutical preparation category recorded significant growth. As a result of continuous fine-tuning of the product portfolio, the proportion of products with high gross profit keep growing and resulting the increment of average gross profit margin of the Group to approximately 63.4% for the Group during the period, which is approximately 5.7 percent points higher than the approximately 57.7% in the same period of 2018. During this period the profit attributable to the owners of the Company was approximately HK\$546.96 million. It is benefited not only from the increment of revenue and gross profit as stated above, but also the share of profit from associates (net) also recorded approximately HK\$12.43 million (among which the Sirtex and Xudong Haipu, which the acquisition were completed in the second half of 2018, contributed unaudited profit of HK\$16,420,000 in aggregate). As a result the profit attributable to the owners of the Company increased by approximately 73.4% respectively as compared with the same period of 2018. If disregarding the depreciation of RMB, for the six months ended 30 June 2019 the revenue of the Group increased by approximately 18.1% and the profit attributable to the owners of the Company increased by approximately 86.8% as compared to the same period of last year.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical preparations and medical devices are the major sources of profit of the Group. The core products include ENT medicines, cerebro-cardiovascular medicines and medical devices, etc. For the six months ended 30 June 2019, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB1,998.83 million with the increment of approximately 28.4% as compared with approximately RMB1,557.27 million in the same period of 2018.

- ENT medicines and devices

In recent years, the Group devotes to build the most comprehensive supply chain of ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, Chinese medicine, medical devices, consumables and healthcare products, etc., and providing an all-rounded treatments and care to medical professions and patients. The Group has multi-channel industry advantages and brand market awareness. Through application of combined advantages of multi-products, the Group will further increase the promotion of non-prescription branded products and increase brand awareness from consumers to obtain further recognition of the Group and its brands. It will further launch new products in the future, such as the first generic glaucoma eye drops "Travoprost" in order to enhance the competitiveness of the Group in the ENT medication field. During the current six months review period, the revenue from ENT medicines and devices was approximately RMB1,172.18 million, which was increased by approximately 26.1% as compared with the same period of last year. It was benefit from the substantial growth of the two major sub-divisions of the ENT field, in which:

- Ophthalmic: During six months ended 30 June 2019, the revenue from the ophthalmic products was approximately RMB354.53 million, with an increment of approximately 13.1% as compared with the approximately RMB313.59 million in the same period of 2018. The core non-prescription eyedrops "Rui Zhu" has recorded continuous growth in revenue, in which the revenue during the period was approximately RMB69.66 million, representing an increase of approximately 40.4% as compared with the same period of last year.

- Respiratory and ENT: during the first half of 2019, the revenue of the respiratory and ENT products of the Group was approximately RMB817.65 million, which was increased by approximately 32.8% as compared with the approximately RMB615.79 million during the same period of last year. The main catalyst came from the major product Qie Nuo of Beijing Jiu He Pharmaceutical Limited. It was benefited from the effort of developing primary and retail markets by the newly established non-prescription drug sales team of the Group, and thus the revenue during the period was approximately RMB553.74 million, representing an increase of approximately RMB117.53 million as compared with the same period of last year. Moreover, the revenue of Jin Sang series was increased by approximately RMB67.28 million to approximately RMB197.70 million during this period.

- *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. With the benefit of strengthen the market promotion efforts, for the six months ended 30 June 2019, the revenue of the Group's cerebro-cardiovascular medicines was approximately RMB650.83 million, increased by approximately 57.1% as compared with the same period of last year. Among this sector, the core product Li Shu An, Xin Wei Ning, Rui An Ji and Nuo Fu Kang contributed revenue amount of approximately RMB618.73 million, which was increased by approximately 61.1% as compared with the same period of last year.

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. During the first half of 2019, the revenue of the bio-technology products and nutrition products was approximately RMB746.98 million, increased by approximately 5.0% as compared with the same period of 2018. The growth engine mainly related to the increasing demand of amino acid products and the exploration of international market by the Group.

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 is fine-tuning the product structure to keep products with synergy effect or better quality in order to enhance overall competitiveness. During the period the revenue amount recorded approximately RMB357.29 million, which was slightly decreased by approximately RMB2.84 million as compared with the same period of last year.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the period were approximately HK\$1,259.67 million and HK\$329.83 million respectively, while they were approximately HK\$1,103.30 million and HK\$272.27 million respectively in the same period of last year. The percentage of distribution costs over revenue recorded approximately 35.1% during this period, and is similar to the approximately 34.1% during the same period of last year. While the Group has invested in the development of new market, the previous efforts have also provided returns. Following the expansion of business scope, the administrative expenses such as salaries and other office expenses also increased and thus resulted the overall administrative expenses increased by approximately HK\$57.56 million as compared with the same period of last year.

Finance Costs

For the six months ended 30 June 2019, the finance costs of the Group were approximately HK\$84.90 million while they were approximately HK\$104.37 million during the same period of 2018. The Group is actively working on the changing of bank loans portfolio, and also the holder of convertible notes converted such notes to the shares of the Company, and resulted the finance costs substantially reduced by approximately 18.7%.

Net Current Liabilities

For the six months ended 30 June 2019, the net current liabilities of the Group was approximately

HK\$346.11 million, which was substantially reduced by approximately 77.5% from the approximately HK\$1,537.80 million as at 31 December 2018. This shows that the liquidity risk of the Group has substantially reduced. Given that the continuous enhancement of capital structure and constant growth of operating profit, the operation risk of the Group is steadily reduced, and the idea of steady operation and the aim of improving operation efficiency is gradually achieved.

Outlook and Future Prospects

China's pharmaceutical market is undergoing a historic reform in terms of institution and market as the frequent issuance of new measures and supporting policies has posed enormous challenges to the operation and development of pharmaceutical enterprises. With regard to the institutional reform, the State Council of China has introduced a reform of state institutions whereby three institutions have been restructured or newly set up to govern different aspects of the medical, pharmaceutical and healthcare sectors. The State Administration for Market Regulation will be responsible for the management of drug research and development (R&D), production and application, and will focus on the clinical and registration review, approval and management of drugs, consistency evaluation and efficacy re-evaluation of generic drugs, priority review and approval, as well as quality control, flight inspection and other supervision of drug manufacturers. The National Health Commission will be in charge of matters relating to medical institutions, including hierarchical diagnosis, separation of prescribing and dispensing of drugs, payment system (DRGs) and development of private medical institutions. The National Healthcare Security Administration will be responsible for matters including payment method and criteria of the urban employee, resident and new rural cooperative medical insurance as well as quantity-based procurement of drugs. Concerning the market, pharmaceutical enterprises are struggling with various uncertainties as they find it difficult to accommodate to and are disturbed by the frequent promulgation of relevant national policies. Not only do they face pressure of investment funding and time limit of consistency evaluation and efficacy re-evaluation of drug equivalency, they also need to cope with the price competition and bargaining difficulties arisen during the "quantity-based procurement for 4+7 cities" and go head to head with its peers in the timely R&D projects for innovative drugs. In the capital market, the rapid changes of the pharmaceutical market have also created fears and chaos among investors who have always considered the pharmaceutical and consumer sectors as a buffer and defensive investment. Valuation of the pharmaceutical sector has undergone a significant downward adjustment and many sought-after pharmaceutical stocks have suffered a huge loss.

Here comes the era with both opportunities and challenges, the era of pioneers poised for development.

Statistics from the National Medical Products Administration (NMPA) showed that the Chinese pharmaceutical industry has become one of the most rapidly-developing industries in the national economy with its continuous expansion in overall scale since the reform and liberalisation of China. With ongoing industrialisation and urbanisation, an aging population that continues to grow and the changes in ecological environment and mode of life, some types of diseases have become major causes of death of and created burden of disease for the Chinese. Information of NMPA revealed that cerebro-cardiovascular diseases, cancers, respiratory illnesses, diabetes and other chronic diseases contributes over 70% of the total burden of disease and 88% of total deaths, and have been a key factor that hinders the increase in healthy life expectancy in China. As such, generic and innovative drugs for preventing and treating four major diseases, namely cerebro-cardiovascular diseases, cancers, chronic respiratory illnesses and diabetes will have greater development opportunities, and pharmaceutical enterprises which implement strategic plans accordingly will be able to leapfrog their rivals.

Among the above four treatment areas with noteworthy growth potentials, the Group has established a firm groundwork in three areas, i.e. cerebro-cardiovascular diseases, cancers and respiratory illnesses, with its years of experience and development, especially in the recent five years. The Group has actively embraced this vast development opportunities by making preparations in different aspects, e.g. product pipelines, core products market share, academic marketing and promotion and key opinion leader (KOL) network development, product commercialisation, international talents for professional studies, reserves of future star products of drugs and medical devices.

The Group enjoys a high market share of and has recorded a steady growth in sales income from its cerebro-cardiovascular products, particularly emergency drug products. The Company offers core products that cover six out of the eight major categories and eleven out of the forty eight types of emergency drugs under the national catalogue. It also occupies a leading position in the industry niche of cardiac stimulants with the largest number of products offered. Certain core products have been initially approved to be on the state's list of alternatives for emergency drugs in deficiency and are under protection by state policies. For the reserves of future products, vigorous efforts will be made in the R&D of its own first generic drugs for emergency use, and there will be more innovative star products of appliances and devices for interventional treatment and diagnosis from overseas, for which the Group will apply for registration approval in China. The Group expects that the products, once rolled out, would provide more new treatment solutions for medical practitioners and patients.

For cancer treatment products, the Group acquired an interventional product of nuclear radiotherapy, namely SIR-Spheres Y-90 resin microsphere product, for terminal liver cancer and an international platform for the R&D, marketing and sales of nuclear radiotherapy products through its successful acquisition with CDH Genetech Limited of Sirtex, an Australian life science corporation, in 2018. The Group will fully utilize this rare market development opportunity to bring itself become one of the leader in the China nuclear medicine aspect.

As to respiratory illnesses, the Group owned a unique star product, is expected to be the Group's star product which can alone generate market sales of more than RMB3 billion. In addition, the Company also has a number of reserved products which some are internationally innovative and some are on the list of the Protected Varieties of Traditional Chinese Medicines. The Group will continue to explore the academic and application of the aforesaid star product, and will apply experience and ability of win-win cooperation and acquisition to further develop more product lines in the respiratory aspect, with the goal of being the pioneer and major role in this aspect.

In the ENT aspect especially in the ophthalmic sector, the Group has become one of the largest suppliers in China, and will fight for more internationally innovative products in order to enhance the ability of continuous development in this aspect and maintain the market leadership status.

The Group also has good results in other treatment sectors, such as the study of drugs and product reserves for rare disease in which we have started study early and making quick implementation, and thus we already have 5 products listed on the National Catalogue for Rare Disease[#](國家罕見病產品目錄). Currently China has launched certain convenient arrangement for the clinical trial registration, preferential tax treatment and medical insurance coverage in respect of orphan drug products. The Group will keep working hard and target to be the forerunners of the sector.

China is one of the largest markets for generic drugs, and such development opportunity will only be available for those pharmaceutical products and enterprises which are capable of obtaining timely approval for registration and offering quality products at low production costs. By strictly following the strategies of extending the industry chain and promoting the integration of drug substances and pharmaceutical preparations, the Group has laid a solid foundation for the development of the Group's generic drugs, drugs with high entry barriers and future innovative drugs and this will be essential for securing the Group's competitive edge in generic drugs.

While treading similar paths as those in other developed countries towards development, the Chinese pharmaceutical market will continue to make advancement. However, due to the shortage of innovative ideas and talents in the pharmaceutical industry makes and the extensive government intervention, it may take greater efforts and longer time for the industry to become established. It will be the Group's core concepts of future development and pathway towards a transformation from drugs with high entry barriers and branded drugs to innovative and advantageous products to attach its importance to serve patients, act according to market demand and focus on R&D. By fully capitalising on its integrated development edges, the Group will explore the global market, extend the market coverage and enhance the capability of international development, insist on the integrated development strategy of carrying out its own R&D, patent licensing and synergetic investment, mergers and acquisitions, operate in compliance with rules and regulations and sunshine laws, follow the rules and regulations during

operation, take on social responsibility and persistently act in the interests of the patients, staff and shareholders as a whole, so as to gain the recognition of medical practitioners and patients and become one of the leading enterprises in the Chinese pharmaceutical market.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2019, 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 2019, the Group employed 7,894 staff and workers in Hong Kong and the PRC (31 December 2018: 8,006). 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

No subsequent events occurred after 30 June 2019, 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 2019.

Code of Corporate Governance Practices

The Company has complied with 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 2019.

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 including the independent non-executive Directors Dr. Pei Geng and Mr. Hu Yebi.

The Group’s unaudited interim financial statements for the six months ended 30 June 2019 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 including the executive Director Mr. Liu Chengwei and independent non-executive Director Mr. Hu Yebi.

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 including the executive Director Dr. Shao Yan and independent non-executive Director Mr. Hu Yebi.

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

Hong Kong, 13 August 2019

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, Dr. Pei Geng and Mr. Hu Yebi.

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.*