



**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: 0512

2008
INTERIM REPORT



INTERIM RESULTS

The board of directors (the "Board") of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2008 of the Company and its subsidiaries (collectively the "Group"), together with comparative figures for the previous period.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	33,297	22,268
Cost of sales		(17,808)	(12,090)
Gross profit		15,489	10,178
Other income		9,074	2,704
Distribution expenses		(19,696)	(8,909)
Administrative expenses		(15,708)	(16,003)
Other operating expenses		—	(700)
Finance costs		(5,679)	(3,478)
Share of results of associates		468	260
Loss before tax	5	(16,052)	(15,948)
Taxation	7	—	—
Loss for the period		(16,052)	(15,948)
Attributable to:			
— Equity holders of the Company		(16,060)	(15,081)
— Minority interests		8	(867)
		(16,052)	(15,948)
Dividend	8	—	—
Loss per share	9		
— Basic		(1.50) cents	(1.40) cents
— Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	36,187	35,441
Interests in leasehold land held for own use under operating leases		4,653	4,435
Investment properties		72,885	70,696
Interests in associates		4,808	4,340
		118,533	114,912
Current assets			
Inventories		11,914	8,078
Trade and other receivables	11	16,231	8,308
Interests in leasehold land held for own use under operating leases — current portion		119	119
Cash and cash equivalents		33,615	67,282
		61,879	83,787
Current liabilities			
Trade and other payables	12	64,087	52,515
Short-term bank loans — secured		64,464	92,307
Other loans — secured		21,423	14,423
		149,974	159,245
Net current liabilities		(88,095)	(75,458)
Total assets less current liabilities		30,438	39,454
Non-current liabilities			
Amount due to holding company		17,565	13,408
Provision for staff welfare and bonus		72,112	67,889
		89,677	81,297
		(59,239)	(41,843)
Capital and reserves			
Share capital	13	10,739	10,739
Reserves		(71,027)	(53,562)
Equity attributable to equity holders of the Company		(60,288)	(42,823)
Minority interests		1,049	980
		(59,239)	(41,843)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2008	10,739	94,457	148,158	(68,554)	(227,623)	(42,823)	980	(41,843)
Translation differences on overseas operations	—	—	—	(1,405)	—	(1,405)	61	(1,344)
Loss for the period	—	—	—	—	(16,060)	(16,060)	8	(16,052)
As at 30 June 2008	10,739	94,457	148,158	(69,959)	(243,683)	(60,288)	1,049	(59,239)
At 1 January 2007	10,739	94,457	148,158	(68,670)	(175,593)	9,091	2,829	11,920
Translation differences on overseas operations	—	—	—	300	—	300	72	372
Loss for the period	—	—	—	—	(15,081)	(15,081)	(867)	(15,948)
As at 30 June 2007	10,739	94,457	148,158	(68,370)	(190,674)	(5,690)	2,034	(3,656)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2008*

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash used in operating activities	(24,125)	(3,318)
Net cash (used in)/from investing activities	(1,188)	612
Net cash (used in)/from financing activities	(5,790)	12,659
Net (decrease)/increase in cash and cash equivalents	(31,103)	9,953
Cash and cash equivalents at 1 January	67,282	59,407
Effect of foreign exchange rate changes	(2,564)	(1,957)
Cash and cash equivalents at 30 June, representing		
Cash and bank balances	33,615	67,403

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2007. In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC)-INT 11 HKFRS 2 — Group and Treasury Share Transactions

HK(IFRIC)-INT 12 Service Concession Arrangements

HK(IFRIC)-INT 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no significant effect on the Group's results and financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new standards, amendments and interpretations that have been issued but are not yet effective. The Group is currently assessing the potential impact of these standards, amendments and interpretations but are not yet in a position to state whether they would have a material financial impact on the Group's results and financial position.

3. Turnover

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

4. Segmental information

(a) Business segments

For management purpose, the Group is currently organised into two divisions: manufacturing and sales of pharmaceutical and health products and properties holding for earning rental income.

Segment information about these businesses is presented below:

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Consolidated	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007	30 June 2008	31 December 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Assets						
Segment assets	66,603	52,564	72,885	70,696	139,488	123,260
Interests in associates	4,808	4,340	—	—	4,808	4,340
Unallocated corporate assets	—	—	—	—	36,116	71,099
	71,411	56,904	72,885	70,696	180,412	198,699

Liabilities						
Segment liabilities	209,336	207,039	—	—	209,336	207,039
Unallocated corporate liabilities	—	—	—	—	30,315	33,503
	209,336	207,039	—	—	239,651	240,542

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Consolidated	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment Revenue						
Turnover	33,297	22,268	—	—	33,297	22,268
Other income	—	—	4,130	2,376	4,130	2,376
	33,297	22,268	4,130	2,376	37,427	24,644
Segment Result	(11,280)	(10,689)	1,988	471	(9,292)	(10,218)
Other unallocated income					3,210	578
Unallocated corporate expenses					(4,760)	(3,090)
Finance costs					(5,678)	(3,478)
Share of results of associates					468	260
Loss for the period					(16,052)	(15,9438)

(b) Geographical segments

The Group's turnover for the six months ended 30 June 2008 are substantially made to customers based in the PRC and the operations and assets are substantially located in the PRC. Accordingly, no separate analysis for the geographical segment information is presented.

5. Loss before tax

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	—	700
Depreciation of property, plant and equipment	2,241	2,882
Depreciation of investment properties	2,142	1,905
Amortisation of interests in leasehold land held for own use under operating lease	63	59
Loss/(gain) on disposal of property, plant and equipment	49	(521)
and after crediting:		
Rental income	4,130	2,376
Interest income	764	231
	8,336	7,020

6. Staff costs

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and wages	8,336	6,093
Contributions to retirement schemes	499	927
	8,835	7,020

7. Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2008 (2007: Nil) as the Company and its subsidiaries which operate in Hong Kong have no assessable profits for both periods.

The subsidiaries operate in the PRC during the period are subject to PRC enterprise income tax at a rate of 18%. No provision for PRC enterprise income tax has been made as these subsidiaries incurred losses during both periods.

8. Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

9. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2008 is based on the loss attributable to equity holders of the Company of HK\$16,060,000 (2007: HK\$15,081,000) and on 1,073,934,000 shares (2007: 1,073,934,000) ordinary shares in issue during the period.

Diluted loss per share for both periods has not been presented as there were no dilutive shares outstanding during the six months periods ended 30 June 2008 and 2007.

10. Property, plant and equipment

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$56,000 for proceeds of HK\$7,000, resulting in a loss on disposal of HK\$49,000.

In addition, the Group spent HK\$1,195,000 on additions to property, plant and equipment to upgrade its production facilities.

11. Trade and other receivables

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Trade receivables	14,004	6,435
Deposits, prepayments and other receivables	2,227	1,873
	16,231	8,308

The aging analysis of trade receivables is set out below:

Within 90 days	10,404	6,439
91 — 180 days	3,893	141
181 — 365 days	46	97
Over 365 days	3,331	3,137
	17,674	9,814
Less: accumulated impairment	(3,670)	(3,379)
	14,004	6,435

The normal credit period granted by the Group is on average 90 days.

12. Trade and other payables

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Trade payables	3,308	2,846
Accrued charges and other creditors	60,779	49,669
	64,087	52,515

All trade payables were aged less than one year.

13. Share capital

	Ordinary shares of HK\$0.01 each			
	30 June 2008		31 December 2007	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
At beginning of period/year	100,000,000	1,000,000	100,000,000	1,000,000
At end of period/year	100,000,000	1,000,000	100,000,000	1,000,000
Issued and fully paid:				
At beginning of period/year	1,073,934	10,739	1,073,934	10,739
At end of period/year	1,073,934	10,739	1,073,934	10,739

14. Commitments

The Group had the following future minimum lease payments under non-cancellable operating leases in respect of land and buildings:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within one year	511	602
In the second to fifth year inclusive	44	109
	555	711

At the same time, the Group also leases out its investment properties, the future minimum rental receivable under non-cancellable operating leases are as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within one year	5,773	5,962
In the second to fifth year inclusive	9,123	8,161
Over five years	416	510
	15,312	14,633

15. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2008.

16. Post balance sheet event

On 1 August 2008, a subsidiary of the Company entered into an acquisition agreement to acquire a 52% equity interest in a PRC company, which is principally engaged in the manufacture and sale of amino acid and its derivatives, at a consideration of RMB31,200,000.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

18. Approval of the interim financial statements

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 22 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2008, the Group recorded a turnover of HK\$33,297,000 which represents an increase of 50% as compared with the corresponding period last year. Such increase was a result of the increase in promotion activities on the health drinks and mineral water product line.

Gross profit for the period under review was HK\$15,489,000 as compared to HK\$10,178,000 for the previous period. The gross margin achieved during the current period was 47% which was slightly better than the 46% margin achieved for the same period last year.

The Group reported a consolidated loss attributable to equity holders of the Company of HK\$16,060,000 as compared with a loss of HK\$15,081,000 for the same period last year. Such increase was mainly attributable to the increase in marketing expenses during the period.

Prospects

As the Group completed the acquisition of Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") and the disposal of Bright Strong Profits Limited ("Bright Strong") in July 2008, the results for the first half of 2008 mainly represented the results of Bright Strong and its subsidiaries and did not reflect the results of Wuhan Grand and its subsidiaries.

Turnover of Wuhan Grand was approximately RMB400 million for the year ended 31 December 2007 and it exported approximately 30% direct and through agents to overseas markets in Africa, America, Asia and Europe. Profits after taxation of Wuhan Grand for the year ended 31 December 2007 amounted to approximately RMB20 million. Net asset value of Wuhan Grand was approximately RMB150 million as at 31 December 2007 before taking into account of an appreciation of land and buildings of approximately RMB100 million.

Wuhan Grand is one of the largest manufacturers of Analgin in the PRC. Another product of Wuhan Grand, Tirofiban, has recorded rapid growth in sales in recent years and it dominates the PRC hospital market as a key anti-platelet drug for the treatment of cardiovascular disease. Two other products, Adrenaline Bitartrate and Noradrenaline Bitartrate, are certified by Food and Drug Administration of USA and are exported to the USA market.

Acquisition of Wuhan Grand enables the Group to enter the PRC pharmaceutical market which is expected to provide a constant growth in the coming years. The Group will also leverage on the management expertise of Wuhan Grand to further expand into the PRC market.

Following the disposal of Bright Strong, the Group is able to get rid of a loss making business which made up of most of the losses incurred by the Group in the past years.

The Group aims to become one of the largest pharmaceutical and healthcare manufacturers in the PRC through generic growth and acquisitions.

Financial resources and liquidity

As at 30 June 2008, the Group had current assets of HK\$61,879,000 (31 December 2007: HK\$83,787,000) and current liabilities of HK\$149,974,000 (31 December 2007: HK\$159,245,000). The current ratio was 0.41 at 30 June 2008 as compared with 0.53 at 31 December 2007.

The Group's cash and bank balances as at 30 June 2008 amounted to HK\$33,615,000 (31 December 2007: HK\$67,282,000), of which 7% were denominated in Hong Kong and United States Dollars and 93% in Renminbi.

As at 30 June 2008, the Group had outstanding short term bank loans of HK\$64,464,000 (31 December 2007: HK\$ 92,307,000), all of which were denominated in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 6.57% to 7.34% (for the six months ended 30 June 2007: 6.44% to 7.34%) per annum. These bank loans were secured by certain properties owned by the Group. The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of issued share capital, was 800% at 30 June 2008 as compared with 994% at 31 December 2007.

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

Employees and remuneration policy

As at 30 June 2008, the Group employed about 300 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

OTHER INFORMATION

Directors' and chief executive's interests in shares

As at 30 June 2008, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Substantial shareholders

As at 30 June 2008, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name of shareholder	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	746,979,654	69.56%
Mr Hu Kaijun (Note)	746,979,654	69.56%

Note: These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr Hu Kaijun.

Save as disclosed herein, no other person is recorded in the register kept pursuant to Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company as at 30 June 2008.

Share option scheme

No share options were granted or exercised under the share option scheme during the six months ended 30 June 2008 and there were no outstanding share options as at 30 June 2008.

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2008.

Model code for securities transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange as its own code of conduct for securities transactions by directors. Having made specific enquiry of the Company's directors, all directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the six months ended 30 June 2008.

Code on corporate governance practices

The Company has complied with the code provisions listed in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2008, with the exception of code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period under review, both posts were vacant.

Audit committee

The Company has established the Audit Committee for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. Currently, the Audit Committee comprises of all independent non-executive directors namely, Ms. So Tosi Wan, Winnie (Chairman) and Mr. Lo Kai Lawrence.

The Group's unaudited interim financial statements for the six months ended 30 June 2008 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 Mr. Liu Chengwei with two independent non-executive directors namely, Ms. So Tosi Wan, Winnie and Mr. Lo Kai Lawrence as members.

By Order of the Board
Liu Chengwei
Chairman

Hong Kong, 22 September 2008

CORPORATE INFORMATION

Executive directors

Mr Liu Chengwei (*Chairman*)

Mr Hu Bo (*Deputy Chairman*)

Independent non-executive directors

Ms So Tosi Wan, Winnie

Mr Lo Kai Lawrence

Company secretary

Mr Lau Wing Yuen

Authorised representatives

Mr Liu Chengwei

Mr Lau Wing Yuen

Auditors

SHINEWING (HK) CPA Limited

Legal advisers

Mason Ching & Associates

Li & Partners Solicitors

Conyers, Dill & Pearman

Principal share registrar

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Hong Kong branch share registrar

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183 Queen's Road East, Hong Kong

Principal bankers

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The Hongkong and Shanghai Banking
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