Interim Report 2011

Challenge

Creativity

Efficiency

Honor

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

Contents

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group focused on the research and development, manufacture and sales of pharmaceutical products. The main products of the Group include ophthalmic medicines and OTC series pharmaceutical products, cerebro-cardiovascular series pharmaceutical products, analgesic and antipyretic pharmaceuticals and anti-infections pharmaceutical products as well as active pharmaceutical ingredients, various pharmaceutical ingredients and health food ingredients products. Of which, ophthalmic medicine "Everyday Bright Eyes" (天天明) and cerebro-cardiovascular medicine "欣維寧" have gained widespread market recognition. The Group is one of the largest manufacturers of analgin, metronidazole, adrenaline bitartrate and noradrenaline bitartrate, enoxacin, dimethyl sulfate, L-cysteine, taurine and betamethasone in the PRC.

In 2010, the Group tapped on prime opportunities to expand our product range and market share by way of acquisition of a number of major pharmaceutical preparations and raw material pharmaceuticals manufacturers. The acquisitions have diversified the product categories and increased the market shares of the Company and their contributions to the scale of operation and the financial results of the Company are substantial. The acquisition have also strengthened the synergy effect between the up-stream pharmaceutical ingredient segment and the down-stream pharmaceutical preparation segment, which is in line with the development strategy of the Group which focuses on the two fronts of pharmaceutical preparation and pharmaceutical ingredient, and have achieved satisfactory operating results.

During the period under review, with respect to core products, income from preparation products of the Group such as ophthalmic medicines and cardiovascular medicines recorded rapid growth and our active pharmaceutical ingredients and raw material products including analgin and betamethasone, maintained leading market positions and made valuable contributions to the overall growth in the results of the Group.

For the six months ended 30 June 2011, the following events had taken place:

(1) On 23 May 2011, 江蘇遠大仙樂藥業有限公司 was established with a registered capital of RMB60 million and solely invested by Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"). The establishment of such company has significant meanings to the Group. First of all, it will hugely ramp up the existing production capacity of Zhejiang Xianle. Secondly, the infrastructure of the new production plant will be constructed in line with international standards in accordance with the quality assurance standards for pharmaceutical products specified and directed by the FDA of the United States and the COS of Europe. This will largely improve product quality, promote product class and raise more profits for the Group. Thirdly, the plant will start to produce special raw material pharmaceuticals, such as newly developed steroid hormones, which will diversify the product lines of the Group, boost the operating income and profits of the Company and help the Company to be established as a renowned international supplier of steroid hormone products.

(2) On 22 June 2011, Grand Pharm (China) Company Ltd. ("Grand Pharm (China)", originally known as Wuhan Grand Pharmaceutical Group Company Limited) entered into a loan agreement with the Bank of Communications Hong Kong Branch. The agreement provides a loan of RMB242.5 million to Grand Pharm (China) with a term of one year commencing from 28 June 2011. Part of the loan will be used in relocation project and the rest will be used to repay existing bank loans with higher interest rates.

Substantial increase in Income and Gross Profit

For the six months ended 30 June 2011, the Group recorded a turnover of HK$840,438,000 (2010: HK$409,085,000) which represents a substantial surge of 105% as compared with the corresponding period last year. Gross profit of the Group also grew by 68%, up to HK$276,356,000 (2010: HK$164,161,000) for the period under review as compared to the last corresponding period. The gross profit margin achieved during the current period was about 33% (2010: 40%), which is slightly lower than the last interim period.

The significant growth in sales and gross profits are mainly attributable to the substantial contributions made by the three subsidiaries which we acquired in March and June 2010 to the operating results of the Group as well as growth of our existing core products in cardiovascular and ophthalmic preparations. Gross profit margin has decreased slightly from 40% in the last interim period to 33% in the current interim period. The slight drop in the gross profit margin is partially due to the fact that the newly acquired subsidiaries of the Company primarily produce active pharmaceutical ingredients and raw material pharmaceuticals which have lower gross profit margin comparing with pharmaceutical preparations.

During the period under review, sales income of several core preparations of the Group recorded significant surge. For the six months ended 30 June 2011, the sale of “Tirofiban”, the cardiovascular emergency medicine of Grand Pharm (China) which is a subsidiary of the Group, recorded a turnover of RMB32.46 million, representing an increase of 35% as compared to RMB24 million of the corresponding period last year.

Hubei Grand EBE Pharmaceutical Company Limited (“Hubei Grand EBE”, originally known as Hubei Ruizhu Pharmaceutical Company Limited), a subsidiary of the Group, produces core ophthalmic preparation products “Ruizhu” and 傑奇. For the six months ended 30 June 2011, the turnover of Hubei Grand EBE amounted to over RMB15 million in total, rising sharply as compared with the last corresponding year.

Strengthen Research and Development and Technical Reform

For the six months ended 30 June 2011, besides attaining outstanding results in acquiring subsidiaries and ensuring its smooth operation and enriching our product mix, we also achieved breakthroughs in the area of product research and development and technological and technical reform. The number of research and development staff increased from 50 last year to nearly 100 and China Grand Pharmaceutical Research and Development Centre was successfully established. At present, several new products have commenced clinical trials and those products are mainly used to cure ophthalmological, otorhinolaryngological, cerebro-cardiovascular diseases and cancer. Research and development expenses increased from HK$9.26 million in the last year to HK$17.77 million, up 92%, making us become one of the Chinese pharmaceutical enterprises which has a higher ratio of research and development expenses to sales revenue.

Extend Sales Network and Enlarge Professional Sales Team

In order to cater to the demand arising from the continuous increase in types of product and the corresponding changes in market structure, the Group has commenced to establish several important sales departments. During the period under review, OTC Department, Market Potential Department and the Department of Anti-Tumor Products have commenced operation as scheduled, while our professional staffs have increased from 700 of last year to about 1,000. Such development has largely enhanced the market coverage of our core products in hospitals, especially in local hospitals of second and third tier cities.

Increase in Sales and Distribution Expenses

Sales and distribution costs increased by approximately HK$57,029,000 from HK$77,815,000 in the last interim period to HK$134,844,000 in the current interim period. The increase in sales and distribution expenses was due to the increase in sales which was a natural result of our major expansion in last year. In addition, during this period, the Group had launched several major advertising and promotion activities, including TV, newspaper and magazine advertisements to promote our products. The directors believe brand building and advertising will yield enduring benefits to the operations of the Group.

Increase in Administrative Expenses

Administrative expenses had increased by approximately HK$49,567,000 from HK$49,937,000 in last interim period to HK$99,504,000 in the current interim period. The increase in administrative expenses was related to our major expansion in last year.

Decrease in Finance costs

Finance costs had decreased by approximately HK$11,379,000 from HK$21,552,000 in the last interim period to HK$10,173,000 in the current interim period. Despite our major expansion in last year, the Group managed to lower its finance costs substantially by using its operating profits to repay bank loans and converting convertible bonds and promissory notes into shares of the Company.

Profit after tax for the period had slightly increased from HK$35,726,000 in the last interim period to HK$38,426,000 in the current interim period. Profit attributable to owners of the Company for the current interim period improved by 25% as compared to the last interim period because of operating synergy and effective cost saving which could be illustrated by the reduced finance costs.

Grand Pharm (China) — Headquarters — Manufacturer of Cardiovascular and Antibiotics Medicines

For the six months ended 30 June 2011, turnover and gross profit were RMB378.23 million and RMB158.51 million respectively (2010: contributions of turnover and gross profit to the consolidated results of the Group for the last interim period ending at 30 June 2010 were RMB289.02 million and RMB131.76 million respectively).

Wuhan Grand Hoyo — Manufacturer of Amino Acid

The acquisition of Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo") has completed and its accounts have been consolidated into the accounts of the Group since March 2010.

For the six months ended 30 June 2011, turnover and gross profit were RMB108.80 million and RMB14.50 million respectively (2010: contributions of turnover and gross profit to the consolidated results of the Group for the last interim period were limited to the four months ended 30 June 2010, which were RMB51.47 million and RMB8.73 million respectively).

Hubei Grand Fuchi — Manufacturer of Chemical Medicine

The acquisition of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Grand Fuchi") has completed and its accounts have been consolidated into the accounts of the Group since June 2010.

For the six months ended 30 June 2011, turnover and gross profit were RMB142.66 million and RMB20.15 million respectively (2010: contributions of turnover and gross profit to the consolidated results of the Group for the last interim period were limited to the one month ended 30 June 2010, which were RMB16.12 million and RMB910,000 respectively).

Hubei Grand EBE — Manufacturer of Ophthalmic Gel and Eye Drops

The acquisition of Hubei Grand EBE has completed and its accounts have been consolidated into the accounts of the Group since May 2010.

For the six months ended 30 June 2011, turnover and gross profit were RMB18.96 million and RMB11.05 million respectively (2010: contributions of turnover and gross profit to the consolidated results of the Group for the last interim period were limited to the two months ended 30 June 2010, which were RMB2.76 million and RMB1.09 million respectively).

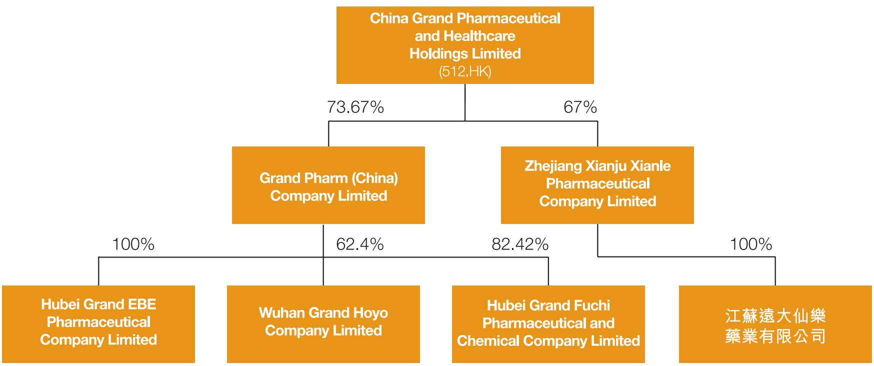
Zhejiang Xianle — Manufacturer of Steroid Hormones

The acquisition of Zhejiang Xianle has completed and its accounts have been consolidated into the accounts of the Group since October 2010.

For the six months ended 30 June 2011, turnover and gross profit were RMB92.15 million and RMB21.44 million respectively. Zhejiang Xianle did not make contribution to the consolidated results of the Group for the last interim period.

Basic Information of the Subsidiaries of the Group

The following diagram shows the structure of the subsidiaries of the Group:



Grand Pharm (China) and Zhejiang Xianle are both subsidiaries of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Grand Pharm (China) focuses on ophthalmic and cerebro-cardiovascular emergency medicines and special raw material pharmaceuticals.

Grand Pharm (China) mainly produces three kinds of products including cardiovascular emergency medicine with the brand name of "欣維寧", ophthalmic medicine with the brand name of "Everyday Bright Eyes" (天天明) and active pharmaceutical ingredients (API) and special raw materials pharmaceutical products.

During the review period of the six months ended 30 June 2011, Grand Pharm (China) seized the opportunities arising from relocation and merger activities to re-organize its professional sales forces and enhance its sales capability targeting nationwide hospital network. Under such unrelenting efforts, sales of certain core products had achieved rapid growth. For example, "欣維寧" and our ophthalmic product "Everyday Bright Eyes", which are included in the National Basic Medical Insurance Drug Catalog, had been applied and used by hospitals in second and third tier cities and successfully entered OTC market, and the brand recognition of which had increased significantly and the sales results of which had maintained strong growth momentum. With respect to raw materials pharmaceutical products, it is encouraging to note that we have secured our position as one of the largest manufacturers of several key products in the PRC.

Since Grand Pharm (China) entered into the corporate relocation agreement on 25 November 2010, the relevant relocation works have been carried out smoothly as scheduled. The construction works of the new China Grand Pharmaceutical Industrial Park, which is located near a plant of Hubei Grand Fuchi, has formally commenced. The relocation works relating to the manufacturing and production of some raw material pharmaceutical products (e.g. pyrazolone relocation project) have almost completed and trial production has commenced accordingly. For other existing products, the relocation of their production facilities (e.g. the relocation project of analgin has just commenced recently) is underway smoothly as originally scheduled. The industrial park will become the Group's production base of international high-end active pharmaceutical ingredients and special raw material pharmaceuticals.

Zhejiang Xianle is one of the largest manufacturers of steroid hormones raw material pharmaceutical products in the PRC.

The ingredients of steroid pharmaceutical products all over the world are extracted from certain particular plants which could mainly be found in China. Zhejiang Xianle, leveraging on such geographical advantageous position and its production technology and market strengths, having taken a proactive stance in adjusting its product structure, perking up its production capacity and participating in the research and development of relevant products, had achieved fruitful results with turnover and profit achieving satisfactory growth during the period under review as compared to the last corresponding period. At present, Zhejiang Xianle is planning to construct a new plant which adopts the most stringent standards in Yancheng of Jiangsu, the completion of which would lay a solid foundation for obtaining the most recognized international certificates, such as those issued by FDA of the United States and COS of Europe, for our products.

Prospects

The Group is determined to achieve three major development goals within the next five years:

Firstly, according to the "Report of Market Research on Ophthalmic Medicines 2010" issued by China SFDA Southern Medicine Economic Institutes, China is one of the countries where ophthalmic diseases are most common in the world. As a result of the severe competition in the society, the lifestyle of the people in the information era and aging population, people therefore attach great importance to ophthalmic diseases and the public concern for the standards of ophthalmic medicines is rising substantially. The Group will endeavor to develop into a large-scale manufacturing and product selling conglomerate which possesses renowned brand "Everyday Bright Eyes" (天天明) in the ophthalmological and otorhinolaryngological field of the PRC and the most diversified therapeutic product mix;

Secondly, with changes in modern lifestyle and the pressure coming from the competition in the society, the disease spectrum of China is changing. According to the statistics set out in the "China Statistical Yearbook 2010", in 2009, heart diseases and cerebrovascular diseases ranked the second and the third respectively in the ranking of death rate of major diseases suffered by urban residents in China, representing 20.77% and 20.36% respectively. As a result, the possibility that people would undergo treatments of heart diseases and cerebrovascular diseases is increasing notwithstanding that they may have developed better living habits and paid more attention to healthcare. The Group will establish itself as a large-scale and renowned conglomerate with the most abundant product mix of emergency medicine in the field of cerebro-cardiovascular disease in the PRC;

Thirdly, European and American countries primarily rely on their own advanced chemical synthetic technologies and their competitive strengths in patents and technical know-how to earn gargantuan profit from high value-added raw material pharmaceutical products. However, leveraging on the enhanced standard of medical research and development and technologies in China, and together with the advantageous position brought about by low production cost and being the origin of certain raw materials of medical products, the raw material pharmaceutical industry of China which has built up a solid foundation of bulk production in the past is going in the direction of developing high-end products with international certifications. Having realized the said market trend and development opportunities, the Group, which is one of the largest manufacturers of certain medical products in the world, will dedicate and put more efforts on research and development and fully utilize our new China Grand Pharmaceutical Industrial Park in Fuchi, Hubei and 江蘇遠大仙樂藥業有限公司 which has been newly established in Yancheng, Jiangsu to target at the manufacturing and sales fields of active pharmaceutical ingredients, pharmaceutical ingredients and nutritious health products in order to set itself to become a manufacturer and supplier of medical products with global reputation in terms of its international competitive edge, quality assurance certification and its possession of a number of core medical products with top and first class quality worldwide.

To attain the above goals, the Group will take a proactive stance to expand its business and seek for valuable opportunities through internal growth and external development. On one hand, it will fully utilize the huge compensation of RMB855 million received from the government for the relocation of Grand Pharm (China) to enhance the standards of the existing production facilities and increase the production capacity in order to obtain more certifications from organizations such as COS of Europe and FDA of the United States for its products and thus strengthen the competitiveness of its products. Meanwhile, it will increase its research and development costs to introduce and develop new types of preparations and special raw material pharmaceutical products. On the other hand, the

Group will follow its long-held development approach of merger and acquisition and fully utilize the advantages gained through such strategy . We will identify appropriate target companies and products in the field of ophthalmology and otorhinolaryngology, cerebro-cardiovascular diseases and anti-tumour products, and through the merger and acquisition of which to enhance corporate governance standards, expand the scale of operation and increase the market share of the Group.

Besides strengthening and improving the quality of our existing products and production efficiency, the Group continues to increase its expenses relating to research and development every year. Our research and development efforts will focus on products in ophthalmological and otorhinolaryngological field, cerebro-cardiovascular field (especially emergency medicine), products for certain kinds of cancer with higher morbidity and special raw material pharmaceutical products.

The Group will adhere to its development strategy which emphasizes on the two fronts of pharmaceutical preparation and pharmaceutical ingredient and uphold its strategy of core product mix. The Group attaches high importance to the synergy effect between subsidiaries of the Group and between our various products. We will spare no endeavor to establish a nation-wide professional sales network and perk up the overall gross profit margin of our products and create a corporate brand which gains overwhelming respect and recognition from the society, medical circle and patients. In an era when the pharmaceutical market of China is on the fast track of development, we see it as our mission to pursue stable growth, vigorous expansion, and healthy development and deliver satisfactory rewards to the Group itself and our valued shareholders.

Financial Resources and Liquidity

As at 30 June 2011, current assets of the Group amounted to HK$1,202,217,000 (31 December 2010: HK$828,941,000) and current liability of the Group amounted to HK$973,314,000 (31 December 2010: HK$636,507,000). Current ratio at 30 June 2011 was 1.24, slightly lower than 1.3 as at 31 December 2010.

As at 30 June 2011, the Group has cash and bank balance (including secured bank deposit) of HK$505,504,000 (31 December 2010: HK$359,691,000), of which, 1% were denominated in Hong Kong and US Dollars and 99% in Renminbi.

As at 30 June 2011, the Group had outstanding bank loans of HK$681,927,000 (31 December 2010: HK$346,717,000), excluding HK$20,000,000, all loans were denominated in Renminbi and were granted by banks in China, Hong Kong and Macau. The interest rates charged by banks ranged from 2.5% to 7.3% (for the year ended 31 December 2010: 5.31% to 5.58%). Such bank loans were secured by properties with net book value of HK$98,417,000 (31 December 2010: HK$98,138,000) of the Group.

As at 30 June 2011, the gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' interests, was 113%, as compared to 61% as at 31 December 2010. Such increase was mainly due to the increase in bank borrowings.

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, the exposure to foreign exchange fluctuation is relatively low.

Employees and remuneration policy

As at 30 June 2011, the Group employed about 3,740 staff and workers in Hong Kong and the PRC (31 December 2010: 3,600). 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.

During the period under review, the Group had not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past and it had not experienced any significant difficulties in recruiting and retaining qualified staff.

Directors' and chief executive's interests in shares

As at 30 June 2011, the Directors and the Company's chief executives, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("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 and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or were required to be entered in the register kept by the Company pursuant to the Section 352 of the SFO:

Long Position in the Company

Name of Director	Capacity	Number of Ordinary shares	Approximate Percentage of total number of Shares
Shao Yan	Interests in spouse *(Note)*	1,000,000	0.05%

Note: *Mr. Shao Yan, a director of the Company, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Mr. Shao Yan shall be deemed to be interested in such 1,000,000 Shares.*

OTHER INFORMATION

Substantial shareholders

As at 30 June 2011, 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	1,218,195,094	63.42%
Mr Hu Kaijun *(Note)*	1,218,195,094	63.42%

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 2011.

Share option scheme

No share options were granted or exercised under the share option scheme during the six months ended 30 June 2011 and there were no outstanding share options as at 30 June 2011.

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2011.

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 2011.

Code on corporate governance practices

The Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2011.

Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

OTHER INFORMATION

Audit committee

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

The Group's unaudited interim financial statements for the six months ended 30 June 2011 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 and other members include the 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, 30 August 2011

Financial Contents

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 2011 of the Company and its subsidiaries (collectively the "Group"), together with comparative figures for the previous period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Turnover	3	840,438	409,085
Cost of sales		(564,082)	(244,924)
Gross profit		276,356	164,161
Other income		12,062	6,866
Distribution costs		(134,844)	(77,815)
Administrative expenses		(99,504)	(49,937)
Other operating expenses		(171)	—
Gain on bargain purchase		—	17,746
Share of results of associates		295	2,637
Finance costs		(10,173)	(21,552)
Profit before tax		44,021	42,106
Income tax expense	5	(5,595)	(6,380)
Profit for the period	6	38,426	35,726
Other comprehensive income			
Exchange difference on translation of foreign operations		13,377	3,978
Change in fair value of available-for-sale financial assets, after tax		(1,240)	—
Other comprehensive income for the period		12,137	3,978
Total comprehensive income for the period		50,563	39,704

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Profit for the period attributable to:			
— Owners of the Company		23,778	18,974
— Non-controlling interests		14,648	16,752
		38,426	35,726
Total comprehensive income for the period attributable to:			
— Owners of the Company		34,293	21,899
— Non-controlling interests		16,270	17,805
		50,563	39,704
Dividend	7	—	—
Earnings per share	8		
— Basic (HK cents)		1.24 cents	1.41 cents
— Diluted (HK cents)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	511,235	450,918
Prepaid lease payments		253,263	246,114
Interests in associates		5,495	5,076
Available-for-sale financial assets		52,278	35,055
Deposits for acquisition of non-current assets		86,390	42,444
Goodwill		54,944	54,944
Intangible assets		808	958
Deferred tax assets		2,274	2,221
Prepayments		24,533	20,415
		991,220	858,145
Current assets			
Inventories		255,212	216,168
Loan receivable		61,949	—
Trade and other receivables	10	373,013	246,405
Prepaid lease payments – current portion		6,539	6,677
Pledged bank deposits		56,279	52,692
Bank balances and cash		449,225	306,999
		1,202,217	828,941
Current liabilities			
Trade and other payables	11	326,241	294,544
Financial guarantee liabilities		437	427
Bank borrowings		620,978	306,717
Tax payable		25,658	34,819
		973,314	636,507
Net current assets		228,903	192,434
Total assets less current liabilities		1,220,123	1,050,579

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Non-current liabilities			
Bank borrowings		60,949	40,000
Deferred tax liabilities		70,312	67,621
Amount due to holding company		12,480	12,580
Deferred income		188,486	83,529
		332,227	203,730
Net assets		887,896	846,849
Capital and reserves			
Share capital	12	19,208	19,208
Reserves		583,300	548,578
Equity attributable to owners of the Company		602,508	567,786
Non-controlling interests		285,388	279,063
Total equity		887,896	846,849

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital HK$'000	Share premium HK$'000	Convertible bond reserve HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000	Safety fund reserve HK$'000	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other Reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010, as previously stated	10,739	94,457	3,256	–	6,099	–	(146)	–	–	(81,453)	32,952	96,271	129,223
Prior year adjustments (Note 1)	–	–	–	–	–	–	–	3,151	–	1,444	4,595	1,878	6,473
At 1 January 2010 (restated)	10,739	94,457	3,256	–	6,099	–	(146)	3,151	–	(80,009)	37,547	98,149	135,696
Profit for the period	–	–	–	–	–	–	–	–	–	18,974	18,974	16,752	35,726
Other comprehensive income for the period:													
Exchange difference on translation of foreign operations	–	–	–	–	–	–	2,925	–	–	–	2,925	1,053	3,978
Total comprehensive income for the period	–	–	–	–	–	–	2,925	–	–	18,974	21,899	17,805	39,704
Placing of shares	2,000	84,360	–	–	–	–	–	–	–	–	86,360	–	86,360
Issue of shares on conversion of convertible bonds	1,667	51,589	(3,256)	–	–	–	–	–	–	–	50,000	–	50,000
Share premium reduction	–	(230,406)	–	121,273	–	–	–	–	–	109,133	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	27,347	27,347
Arising from deemed acquisition of non-controlling interests	–	–	–	–	–	–	–	–	7,486	–	7,486	(7,486)	–
Non-controlling interests arising on the acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	94,413	94,413
At 30 June 2010 (unaudited)	14,406	–	–	121,273	6,099	–	2,779	3,151	7,486	48,098	203,292	230,228	433,520
At 1 January 2011 (audited)	19,208	268,628	–	121,273	8,500	1,482	17,556	5,911	2,014	123,214	567,786	279,063	846,849
Profit for the period	–	–	–	–	–	–	–	–	–	23,778	23,778	14,648	38,426
Other comprehensive income for the period:													
Exchange difference on translation of foreign operations	–	–	–	–	–	–	11,309	–	–	–	11,309	2,068	13,377
Change in fair value of available-for-sale financial assets, after tax	–	–	–	–	–	–	–	(794)	–	–	(794)	(446)	(1,240)
Total comprehensive income for the period	–	–	–	–	–	–	11,309	(794)	–	23,778	34,293	16,270	50,563
Arising from deemed acquisition of non-controlling interests	–	–	–	–	–	–	–	–	422	–	422	(422)	–
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	7	–	7	(6,447)	(6,440)
Dividend distributable to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(3,076)	(3,076)
At 30 June 2011 (unaudited)	19,208	268,628	–	121,273	8,500	1,482	28,865	5,117	2,443	146,992	602,508	285,388	887,896

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash (used in)/from operating activities	(77,133)	116,611
Net cash used in investing activities	(205,481)	(143,564)
Net cash from financing activities	418,752	53,408
Net increase in cash and cash equivalents	136,138	26,455
Cash and cash equivalents at 1 January	306,999	60,227
Effect of foreign exchange rate changes	6,088	(930)
Cash and cash equivalents at 30 June, representing		
Cash and bank balances	449,225	85,752

NOTES TO THE CONDENSED CONSOLIDATED 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 (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Prior year adjustments

Grand Pharm (China) Company Ltd. ("Grand Pharm (China)"), for which 70.98% equity interest was acquired in the year of 2008 by the Group, owned an available-for-sale financial asset of equity securities (the "AFS Securities") at a cost of RMB700,000 at a time since 1997. The AFS Securities were unlisted securities before the year of 2004, when the investee company was successfully listed in the Shanghai Stock Exchange. The AFS Securities were subject to restriction for free trading since its listing up to May 2007.

In last year, management conducted a detailed review on the impairment of the AFS Securities. As a result of the review it was noticed that, the AFS Securities were inadvertently measured at cost less impairment loss in the books of Grand Pharm (China) for the period from the year of 2004 to the year ended 31 December 2010. Consequently, the Group re-measured the AFS Securities at their fair value since the date of the listing of shares in the investee company, with any changes in fair value, other than impairment losses, being charged or credited to the available-for-sale financial assets revaluation reserve in the period when the change occurs. Prior year adjustments were raised accordingly to reflect the re-measurement of the AFS Securities in accordance with the Company's accounting policies.

Details of the prior year adjustments were set out in note 1 of the Company's annual report for the year ended 31 December 2010.

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new or revised Standards and Interpretations ("new and revised HKFRSs") issued by the HKICPA:

- Improvements to HKFRSs issued in 2010
- HKAS 24 (as revised in 2009) Related Party Disclosure
- Amendments to HKAS 32 Classification of Rights Issues
- Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
- HK(IFRIC)-Int 9 Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. Significant accounting policies *(Continued)*

The Group has not early applied new or revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1(Amendments)	Presentation of Financial Statements[2]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

1 *Effective for annual periods beginning on or after 1 January 2013.*
2 *Effective for annual periods beginning on or after 1 July 2012.*

HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 and HKAS 28 are new or revised standards on consolidation, joint arrangements and disclosures which were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time.

2. Significant accounting policies *(Continued)*

The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The directors are assessing the impact of the application of HKFRS 10 might have on the results and financial position of the Group. Such impact will be disclosed in future consolidated financial statements of the Group upon completion of the assessments.

Other than disclosed above, the directors of the Company anticipate that the application of these five and other new or revised standards will have no material impact on the results and the financial position of the Group.

3. Turnover

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

4. Segment information

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

4. Segment information *(Continued)*

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

5. Income tax expense

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax:		
People's Republic of China ("PRC")	**6,401**	6,704
Deferred tax:		
Hong Kong	**–**	(165)
PRC	**(806)**	(159)
	5,595	6,380

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2011 (2010: Nil) as the Company and its subsidiaries which operate in Hong Kong have no assessable profits (2010: no assessable profits) for the period.

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

5. Income tax expense *(Continued)*

All other PRC subsidiaries operate in the PRC during the period are subject to the tax rate of 25%.

6. Profit for the period

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit before tax is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**82,028**	46,904
— Retirement benefits schemes contributions	**8,851**	4,737
	90,879	51,641
Depreciation of property, plant and equipment	**22,060**	7,980
Amortisation of prepaid lease payments	**3,019**	3,365
Amortisation of intangible assets	**171**	165
Total depreciation and amortisation	**25,250**	11,510
Share of tax of associates	**33**	325
Cost of inventories recognised as an expense	**564,082**	244,924
Operating leases rentals in respect of land and buildings	**3,302**	639
Loss on disposal of property, plant and equipment	**629**	—
Research and development costs	**17,772**	9,259
Written off of property, plant and equipment	**—**	17

7. Interim dividend

No dividend were paid, declared or proposed during the reporting period. The Board does not recommend the payment of an interim dividend for the period (2010: Nil).

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to equity holders of the Company of HK$23,778,000 (2010: HK$18,974,000) and on 1,920,801,000 (2010: 1,341,337,315) ordinary shares, being the weighted average ordinary shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2011 (2010: Nil), as there was no dilutive potential ordinary share for the period.

9. Property, plant and equipment

The Group incurred approximately HK$71,592,000 (2010: HK$249,358,000) on additions to property, plant and equipment, of which none (2010: approximately HK$239,994,000) were acquired through acquisition of subsidiaries during the reported period.

10. Trade and other receivables

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Trade receivables	267,452	105,879
Bills receivables	30,677	86,380
Other receivables, deposits and prepayments	84,520	63,553
Less: impairment loss on other receivables	(9,636)	(9,407)
	373,013	246,405
The aging analysis of trade receivables is set out below:		
Within 90 days	214,299	99,630
91–180 days	47,130	8,161
181–365 days	8,459	1,743
Over 365 days	25,240	30,249
	295,128	139,783
Less: accumulated impairment	(27,676)	(33,904)
	267,452	105,879

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

11. Trade and other payables

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Trade payables	105,905	89,285
Bills payables	52,746	46,745
Accrued charges and other creditors	167,590	158,514
	326,241	294,544
The aging analysis of trade payables is set out below:		
Within 90 days	84,516	64,849
Over 90 days	21,389	24,436
	105,905	89,285

12. Share capital

	Ordinary shares of HK$0.01 each			
	30 June 2011		31 December 2010	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
	(Unaudited)		(Audited)	
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	1,920,801	19,208	1,073,934	10,739
Issue of shares pursuant to a subscription agreement	–	–	200,000	2,000
Issue of shares on conversion of convertible bond	–	–	166,667	1,667
Issue of shares pursuant to an open offer	–	–	480,200	4,802
At end of period/year	1,920,801	19,208	1,920,801	19,208

13. Commitments

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

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Within one year	3,459	3,456
In the second to fifth year inclusive	4,197	5,986
	7,656	9,442

The Group had the following capital expenditure contracted for but not provided in the condensed consolidated financial statements:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
In respect of the acquisition of property, plant and equipment	64,203	33,105

14. Contingent liabilities

The Group had no significant contingent liabilities as at 30 June 2011 (2010: nil).

CORPORATE INFORMATION

Executive directors

Mr Liu Chengwei *(Chairman)*
Mr Hu Bo *(Deputy Chairman)*
Dr Shao Yan
Dr Zhang Ji

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Lo Kai Lawrence
Dr Pei Geng

Company secretary

Ms Cheung Woo Yiu, Idy

Authorised representatives

Mr Liu Chengwei
Ms Cheung Woo Yiu, Idy

Audit committee

Ms So Tosi Wan, Winnie *(Chairman)*
Mr Lo Kai Lawrence
Dr Pei Geng

Remuneration committee

Mr Liu Chengwei *(Chairman)*
Ms So Tosi Wan, Winnie
Mr Lo Kai Lawrence

Website

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Auditors

SHINEWING (HK) CPA Limited

Legal advisers

Boughton Peterson Yang Anderson Solicitors
Li & Partners Solicitors
Conyers, Dill & Pearman

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Rosebank Centre, 11 Bermudiana Road
Pembroke HM08, Bermuda

Hong Kong branch share registrar

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East, Hong Kong

Principal bank

China Construction Bank
China Merchants Bank
Hongkong and Shanghai Banking Corporation

Registered office

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Principal office

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99 Queen's Road Central, Hong Kong