四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.
四環醫藥控股集團有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 AND CONTINUED SUSPENSION OF TRADING

	Year ended 31 December		
	2014	**2013**	**change**
	RMB'000	*RMB'000* *(Restated)*	
Key Income Statement Items			
Revenue	3,084,236	2,586,402	19.2%
Gross profit	2,111,422	1,455,469	45.1%
Operating profit	1,979,088	1,497,142	32.2%
Profit attributable to owners of the Company	1,671,281	1,284,882	30.1%
Key Financial Ratios			
Gross profit margin	68.46%	56.27%	
Net profit margin	54.19%	49.68%	
Earnings per share — Basic (RMB cents)	16.13	12.41	
Receivable Turnover (days)	82	102	
Inventory Turnover (days)	52	31	
Proposed final cash dividend per share (RMB cents)	1.3	2.1	

2014 FINANCIAL HIGHLIGHTS

- Profit attributable to owners of the Company increased by 30.1% to RMB1,671.3 million in 2014.
- Revenue of the Group increased by 19.2% to RMB3,084.2 million in 2014 from RMB2,586.4 million.
- Basic earnings per share increased by approximately 30.0% from RMB12.4 cents in 2013 to approximately RMB16.1 cents in 2014.
- A final cash dividend of RMB1.3 cents per share was recommended by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2014 (the "**Year**") together with the comparative figures for the previous year as follows:

REASON FOR DELAY IN PUBLICATION OF THE 2014 ANNUAL RESULTS

For information on the delay in publication of the 2014 annual results, please refer to the announcements of the Company dated 27 March 2015, 19 April 2015 and 8 June 2015.

CONSOLIDATED BALANCE SHEET

		As at 31 December		As at 1 January
	Note	**2014**	**2013**	**2013**
		RMB'000	*RMB'000*	*RMB'000*
			(Restated)	*(Restated)*
Assets				
Non-current assets				
Property, plant and equipment		1,704,128	1,441,677	924,052
Investment properties		32,659	34,437	30,894
Intangible assets	4	2,815,711	2,880,622	3,735,030
Land use rights		362,364	337,998	165,637
Investment accounted for using the equity method		358,491	34,069	40,962
Trade and other receivables		—	—	154,192
Deferred income tax assets		61,906	119,939	265,176
Other non-current assets		361,228	—	122,521
		5,696,487	4,848,742	5,438,464
Current assets				
Inventories		177,181	101,283	91,472
Trade and other receivables	5	1,240,666	1,398,041	769,120
Available-for-sale financial assets	6	1,617,631	776,074	717,921
Term deposits with initial term of over three months		—	233,651	898,560
Cash and cash equivalents		1,317,945	1,593,503	1,567,048
		4,353,423	4,102,552	4,044,121
Assets of disposal group classified as held for sale		1,273,073	1,145,781	—
		5,626,496	5,248,333	4,044,121
Total assets		11,322,983	10,097,075	9,482,585

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000 (Restated)	As at 1 January 2013 RMB'000 (Restated)
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	7	85,610	44,419	44,419
Share premium	7	5,574,848	5,573,951	5,573,951
Other reserves		151,897	89,329	65,256
Retained earnings		3,479,322	2,113,760	1,357,986
		9,291,677	7,821,459	7,041,612
Non-controlling interests		114,336	115,485	102,927
Total equity		9,406,013	7,936,944	7,144,539
Liabilities				
Non-current liabilities				
Deferred income tax liabilities		130,390	140,862	208,532
Other non-current liabilities	8	89,912	85,142	231,592
Borrowings	9	3,500	5,880	5,880
		223,802	231,884	446,004
Current liabilities				
Trade and other payables	10	1,105,384	1,354,946	893,797
Borrowings	9	—	180,800	767,234
Current income tax liabilities		194,572	142,928	225,813
Other current liabilities	8	96,338	9,361	5,198
		1,396,294	1,688,035	1,892,042
Liabilities of disposal group classified as held for sale		296,874	240,212	—
		1,693,168	1,928,247	1,892,042
Total liabilities		1,916,970	2,160,131	2,338,046
Total equity and liabilities		11,322,983	10,097,075	9,482,585
Net current assets		3,933,328	3,320,086	2,152,079
Total assets less current liabilities		9,629,815	8,168,828	7,590,543

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2014	**2013**
	Note	*RMB'000*	*RMB'000*
			(Restated)
Revenue	11	3,084,236	2,586,402
Cost of sales	12	(972,814)	(1,130,933)
Gross profit		2,111,422	1,455,469
Other income	11	46,220	30,281
Other gains — net	11	451,754	477,305
Distribution costs	12	(150,164)	(139,086)
Administrative expenses	12	(480,144)	(326,827)
Operating profit		1,979,088	1,497,142
Finance income	13	116,983	121,137
Finance expenses	13	(18,004)	(8,762)
Finance income — net		98,979	112,375
Share of loss of investment accounted for using the equity method		(4,644)	(6,830)
Loss on dilution of interest in associate		—	(63)
Profit before income tax		2,073,423	1,602,624
Income tax expense	14	(388,542)	(310,671)
Profit for the year		1,684,881	1,291,953
Profit attributable to:			
Owners of the Company		1,671,281	1,284,882
Non-controlling interests		13,600	7,071
		1,684,881	1,291,953

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Year ended 31 December	
		2014	**2013**
	Note	*RMB'000*	*RMB'000*
			(Restated)
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)			
Basic and diluted earnings per share	15	16.13	12.41
Profit for the year		1,684,881	1,291,953
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets, net of tax	6	10,957	1,053
Other comprehensive income for the year, net of tax		10,957	1,053
Total comprehensive income for the year		1,695,838	1,293,006
Attributable to:			
Owners of the Company		1,682,238	1,285,935
Non-controlling interests		13,600	7,071
Total comprehensive income for the year		1,695,838	1,293,006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2013 (Original stated)	44,419	5,573,951	65,256	1,400,702	7,084,328	102,927	7,187,255
Prior year adjustments	—	—	—	(42,716)	(42,716)	—	(42,716)
Balance as at 1 January 2013 (Restated)	44,419	5,573,951	65,256	1,357,986	7,041,612	102,927	7,144,539
Comprehensive income							
Profit for the year (Restated)	—	—	—	1,284,882	1,284,882	7,071	1,291,953
Other comprehensive income							
Changes in value of available-for-sale financial assets, net of tax	—	—	1,053	—	1,053	—	1,053
Total other comprehensive income, net of tax	—	—	1,053	—	1,053	—	1,053
Total comprehensive income	—	—	1,053	1,284,882	1,285,935	7,071	1,293,006
Total contribution by and distributions to owners of the Company recognised directly in equity							
Employees share award scheme:							
-value of employee service	—	—	16,589	—	16,589	—	16,589
Dividends	—	—	—	(522,677)	(522,677)	—	(522,677)
Transfer to PRC statuary reserve fund	—	—	6,431	(6,431)	—	—	—
Total contributions by and distributions to owners of the Company, recognised directly in equity	—	—	23,020	(529,108)	(506,088)	—	(506,088)
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	5,487	5,487
Total transactions with owners, recognised directly in equity	—	—	23,020	(529,108)	(506,088)	5,487	(500,601)
Balance as at 31 December 2013 (Restated)	44,419	5,573,951	89,329	2,113,760	7,821,459	115,485	7,936,944

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance as at 1 January 2014 (Restated)	44,419	5,573,951	89,329	2,113,760	7,821,459	115,485	7,936,944
Comprehensive income							
Profit for the year	—	—	—	1,671,281	1,671,281	13,600	1,684,881
Other comprehensive income							
Changes in value of available-for-sale financial assets, net of tax	—	—	10,957	—	10,957	—	10,957
Total other comprehensive income, net of tax	—	—	10,957	—	10,957	—	10,957
Total comprehensive income	—	—	10,957	1,671,281	1,682,238	13,600	1,695,838
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Issuance of ordinary shares	56	42,032	—	—	42,088	—	42,088
Bonus issue of ordinary shares	41,135	(41,135)	—	—	—	—	—
Employees share award scheme:							
-value of employee service	—	—	28,273	—	28,273	—	28,273
Dividends	—	—	—	(243,558)	(243,558)	—	(243,558)
Transfer to PRC statuary reserve fund	—	—	62,161	(62,161)	—	—	—
Total contributions by and distributions to owners of the Company, recognised directly in equity	41,191	897	90,434	(305,719)	(173,197)	—	(173,197)
Changes in ownership interests in subsidiaries without change of control	—	—	(38,823)	—	(38,823)	(14,749)	(53,572)
Total transactions with owners, recognised directly in equity	41,191	897	51,611	(305,719)	(212,020)	(14,749)	(226,769)
Balance as at 31 December 2014	85,610	5,574,848	151,897	3,479,322	9,291,677	114,336	9,406,013

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	Year ended 31 December 2014 *RMB'000*	2013 *RMB'000* *(Restated)*
Cash flows from operating activities			
Cash generated from operations		2,010,909	1,913,865
Income tax paid		(249,973)	(340,175)
Net cash generated from operating activities		1,760,936	1,573,690
Cash flows from investing activities			
New set up of associates		(329,066)	—
Payment for acquisition of subsidiaries in prior years		—	(20,000)
Purchases of property, plant and equipment		(264,080)	(846,125)
Prepayment for purchase of property, plant and equipment		(37,748)	—
Purchases of intangible assets		(42,744)	(234,498)
Prepayment for purchase of intangible assets		(149,000)	—
Purchases of land use rights		(84,869)	(87,955)
Prepayment for acquisition of land use rights		(174,480)	—
Purchases of available-for-sale financial assets	6	(8,748,780)	(6,467,400)
Proceeds from disposal of available-for-sale financial assets		7,918,180	6,410,300
Proceeds from disposal of property, plant and equipment		11,805	1,488
Proceeds from disposal of intangible assets		—	1,415
Proceeds from disposal of land use rights		3,085	—
Decrease of term deposits with initial term of over three months		233,651	664,909
Interest received		105,389	86,578
Net cash used in investing activities		(1,558,657)	(491,288)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		42,088	—
Proceeds from borrowings		3,500	180,800
Repayment of borrowings		(186,680)	(704,148)
Acquisition of additional interest in a subsidiary		(53,572)	—
Non-controlling interests arising on establishing new subsidiaries		—	5,487
Dividends paid to company's shareholders	16	(243,558)	(522,677)
Interest paid		(5,817)	(8,058)
Net cash used in financing activities		(444,039)	(1,048,596)
Net (decrease)/increase in cash and cash equivalents		(241,760)	33,806
Cash and cash equivalents at beginning of year		1,600,854	1,567,048
Cash and cash equivalents at end of year		1,359,094	1,600,854

Notes:

1. GENERAL INFORMATION

The Company is incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the "**Group**") are research and development, manufacturing and sale of pharmaceutical products in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The address of the principal place of business of the Group is 21/F, Building 2, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025 in the PRC.

The Company had its primary listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 October 2010.

These consolidated financial information are presented in units of Renminbi ("**RMB**") thousand Yuan, unless otherwise stated.

These consolidated financial information have been approved for issue by the Board of Directors on 31 July 2015.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Prior year adjustments and restatements

In 2014, the Company received an external enquiry (the "**Enquiry**") as to how the Group has been conducting its sales and marketing activities, which may have an impact on the accounting treatment that the Group adopted in the past for certain of its sales revenue and distribution expenses, as well as other financial reporting matters. In response to the Enquiry, the audit committee of the Company (the "**Audit Committee**") conducted an independent investigation (the "**Investigation**") involving, among others, assistance from a third party consultant, in relation to the matters raised in the Enquiry.

Based on the findings of the Investigation, the Directors of the Company considered it appropriate to make adjustments to the Group's consolidated financial statements for the years ended 31 December 2013 and before, and consequently prior year adjustments were recorded by the Group in respect of the following matters:

(i) ***Revised sales model and reimbursement to distributors***

Prior to 2011 and under the Group's original sales model, the marketing and promotion activities in relation to the Group's products were mainly carried out by the distributors of the Group. The related marketing and promotion expenses were not incurred nor recorded by the Group. With effect from the completion of certain acquisitions in 2011, the Group retained the sales model of the newly acquired companies ("**Revised Sales Model**") and adopted it for some of the Group's products in order to have an effective integration of such business with that of the Group. The Revised Sales Model was used alongside with the Company's original sales model, although most of the sales were conducted using the Revised Sales Model in 2012 and 2013. Under the Revised Sales Model, the Group engaged certain marketing research agents ("**MRAs**") for provision of marketing and promotion services, which were previously conducted by the Group's distributors before the adoption of the Revised Sales Model. The selling prices of the Group's products to the distributors were then adjusted and increased accordingly after considering these marketing and promotion expenses under the Revised Sales Model. The marketing and promotion expenses paid by the Group to the MRAs were previously recorded as distribution costs in the consolidated financial statements of the Group. Since mid 2014 the Group has significantly reduced the sales of its products using the Revised Sales Model and consequently does not engage MRAs for provision of marketing and promotion services any more.

(a) Based on the findings of the Investigation, certain MRAs, whose sole activities are provision of marketing related services to the Group, were now considered to be controlled by the Group as the Group is exposed to variable returns and has the ability to affect those returns through its power over these MRAs. The Directors of the Company considered that these MRAs should be accounted for as structured entities of the Group and therefore should be consolidated ("**Consolidated MRAs**") in the consolidated financial statements of the Group.

As a result of the prior year adjustment on the consolidation of the Consolidated MRAs (with the eliminations), total income/gains and expenses of RMB78,521,000 and RMB78,521,000, respectively; cash and cash equivalents and trade and other payables of RMB64,833,000 and RMB64,833,000, respectively were adjusted and included in the Group's consolidated financial statements as at and for the year ended 31 December 2013. In addition, cash and cash equivalents and trade and other payables of RMB10,361,000 and RMB10,361,000 were adjusted and included in the Group's consolidated financial statements as at 1 January 2013.

These adjustments did not affect the net profit or net assets of the Group as at 31 December 2013 or before.

(b) Besides, the Investigation also revealed that the marketing and promotion expenses paid by the Group to the MRAs under the Revised Sales Model mentioned above (including those paid to the Consolidated MRAs), together with certain distributions costs directly incurred by the Group, were eventually reimbursed to either the Group's distributors or certain third parties recipients designated by the Group's distributors through various means ("**Reimbursement Activities**"). The Directors of the Company considered that the relevant marketing and promotion expenses should be adjusted and accounted for as a reduction of the revenue earned from the distributors. As a result, a prior year adjustment was recorded to offset the related revenue and distribution costs of RMB2,146,298,000 for the year ended 31 December 2013.

This adjustment did not affect the net profit or net assets of the Group as at 31 December 2013 or before.

The effects of the above adjustments on the consolidated financial statements are summarised in Note (iii) below.

(ii) ***Off-book transactions conducted through employees' personal bank accounts***

The Investigation also revealed that the Group had certain off-book transactions that were conducted through certain personal bank accounts, which were opened in the names of certain employees of the Group (referred to as "**off-book transactions**"). These off-book transactions mainly included: (1) sales of distribution rights; (2) payments of distribution rights; (3) deposits from certain distributors; and (4) payments of salary of and other expenses incurred by certain employees of the Group. Based on the Investigation findings, these off-book transactions were not previously accounted for and recorded in the Group's consolidated financial statements. The Directors of the Company considered that the prior year consolidated financial statements should be adjusted.

As a result of this prior year adjustment, total income/gains and expenses of RMB10,589,000 and RMB28,719,000, respectively; and total assets and liabilities of RMB20,594,000 and RMB81,440,000, respectively were adjusted and included in the Group's consolidated financial statements as at and for the year ended 31 December 2013. In addition, total assets and liabilities of RMB12,780,000 and RMB55,496,000 were adjusted and included in the Group's consolidated financial statements as at 1 January 2013.

The effects of the above adjustments on the consolidated financial statements are summarised in Note (iii) below.

(iii) The effects of the restatements described above on the consolidated statement of comprehensive income for the year ended 31 December 2013 are as follows:

	As previously reported	Prior year adjustments			Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(i)(a)	*(i)(b)*	*(ii)*	
Revenue	4,732,700	—	(2,146,298)	—	2,586,402
Cost of sales	(1,032,986)	(84,110)	—	(13,837)	(1,130,933)
Gross profit	3,699,714	(84,110)	(2,146,298)	(13,837)	1,455,469
Other income	19,720	—	—	10,561	30,281
Other gains — net	399,006	78,299	—	—	477,305
Distribution costs	(2,329,531)	55,894	2,146,298	(11,747)	(139,086)
Administrative expenses	(326,827)	—	—	—	(326,827)
Operating profit	1,462,082	50,083	—	(15,023)	1,497,142
Finance income	120,887	222	—	28	121,137
Finance expenses	(8,625)	(115)	—	(22)	(8,762)
Finance income — net	112,262	107	—	6	112,375
Share of loss of investment accounted for using the equity method	(6,830)	—	—	—	(6,830)
Loss on dilution of interest in associate	(63)	—	—	—	(63)
Profit before income tax	1,567,451	50,190	—	(15,017)	1,602,624
Income tax expense	(257,368)	(50,190)	—	(3,113)	(310,671)
Profit for the year	1,310,083	—	—	(18,130)	1,291,953
Profit attributable to:					
Owners of the Company	1,303,012	—	—	(18,130)	1,284,882
Non-Controlling interests	7,071	—	—	—	7,071
	1,310,083	—	—	(18,130)	1,291,953
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)					
Basic and diluted earnings per share	12.59				12.41

The effects of the restatements described above on the consolidated balance sheet at 31 December 2013 are as follows:

	As previously reported	Prior year adjustments			Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(i)(a)	*(i)(b)*	*(ii)*	
Assets					
Non-current assets					
Property, plant and equipment	1,441,677	—	—	—	1,441,677
Investment properties	34,437	—	—	—	34,437
Intangible assets	2,880,622	—	—	—	2,880,622
Land use rights	337,998	—	—	—	337,998
Investment accounted for using the equity method	34,069	—	—	—	34,069
Deferred income tax assets	119,939	—	—	—	119,939
Other non-current assets	—	—	—	—	—
	4,848,742	—	—	—	4,848,742
Current assets					
Inventories	101,283	—	—	—	101,283
Trade and other receivables	1,398,041	—	—	—	1,398,041
Available-for-sale financial assets	776,074	—	—	—	776,074
Term deposits with initial term of over three months	233,651	—	—	—	233,651
Cash and cash equivalents	1,508,076	64,833	—	20,594	1,593,503
	4,017,125	64,833	—	20,594	4,102,552
Assets of disposal group classified as held for sale	1,145,781	—	—	—	1,145,781
	5,162,906	64,833	—	20,594	5,248,333
Total assets	10,011,648	64,833	—	20,594	10,097,075

	As previously reported	Prior year adjustments			Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(i)(a)	*(i)(b)*	*(ii)*	
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	44,419	—	—	—	44,419
Share premium	5,573,951	—	—	—	5,573,951
Other reserves	89,329	—	—	—	89,329
Retained earnings	2,174,606	—	—	(60,846)	2,113,760
	7,882,305	—	—	(60,846)	7,821,459
Non-controlling interests	115,485	—	—	—	115,485
Total equity	7,997,790	—	—	(60,846)	7,936,944
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	140,862	—	—	—	140,862
Other non-current liabilities	63,227	—	—	21,915	85,142
Borrowings	5,880	—	—	—	5,880
	209,969	—	—	21,915	231,884
Current liabilities					
Trade and other payables	1,253,107	64,833	—	37,006	1,354,946
Borrowings	180,800	—	—	—	180,800
Current income tax liabilities	129,770	—	—	13,158	142,928
Other current liabilities	—	—	—	9,361	9,361
	1,563,677	64,833	—	59,525	1,688,035
Liabilities of disposal group classified as held for sale	240,212	—	—	—	240,212
	1,803,889	64,833	—	59,525	1,928,247
Total liabilities	2,013,858	64,833	—	81,440	2,160,131
Total equity and liabilities	10,011,648	64,833	—	20,594	10,097,075
Net current assets	3,359,017	—	—	(38,931)	3,320,086
Total assets less current liabilities	8,207,759	—	—	(38,931)	8,168,828

The effects of the restatements described above on the consolidated balance sheet at 1 January 2013 are as follows:

	As previously reported	Prior year adjustments			Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(i)(a)	*(i)(b)*	*(ii)*	
Assets					
Non-current assets					
Property, plant and equipment	924,052	—	—	—	924,052
Investment properties	30,894	—	—	—	30,894
Intangible assets	3,735,030	—	—	—	3,735,030
Land use rights	165,637	—	—	—	165,637
Investment accounted for using the equity method	40,962	—	—	—	40,962
Trade and other receivables	154,192	—	—	—	154,192
Deferred income tax assets	265,176	—	—	—	265,176
Other non-current assets	122,521	—	—	—	122,521
	5,438,464	—	—	—	5,438,464
Current assets					
Inventories	91,472	—	—	—	91,472
Trade and other receivables	769,120	—	—	—	769,120
Available-for-sale financial assets	717,921	—	—	—	717,921
Term deposits with initial term of over three months	898,560	—	—	—	898,560
Cash and cash equivalents	1,543,907	10,361	—	12,780	1,567,048
	4,020,980	10,361	—	12,780	4,044,121
Assets of disposal group classified as held for sale	—	—	—	—	—
	4,020,980	10,361	—	12,780	4,044,121
Total assets	9,459,444	10,361	—	12,780	9,482,585

	As previously reported	Prior year adjustments			Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(i)(a)	*(i)(b)*	*(ii)*	
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	44,419	—	—	—	44,419
Share premium	5,573,951	—	—	—	5,573,951
Other reserves	65,256	—	—	—	65,256
Retained earnings	1,400,702	—	—	(42,716)	1,357,986
	7,084,328	—	—	(42,716)	7,041,612
Non-controlling interests	102,927	—	—	—	102,927
Total equity	7,187,255	—	—	(42,716)	7,144,539
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	208,532	—	—	—	208,532
Other non-current liabilities	207,407	—	—	24,185	231,592
Borrowings	5,880	—	—	—	5,880
	421,819	—	—	24,185	446,004
Current liabilities					
Trade and other payables	867,368	10,361	—	16,068	893,797
Borrowings	767,234	—	—	—	767,234
Current income tax liabilities	215,768	—	—	10,045	225,813
Other current liabilities	—	—	—	5,198	5,198
	1,850,370	10,361	—	31,311	1,892,042
Liabilities of disposal group classified as held for sale	—	—	—	—	—
	1,850,370	10,361	—	31,311	1,892,042
Total liabilities	2,272,189	10,361	—	55,496	2,338,046
Total equity and liabilities	9,459,444	10,361	—	12,780	9,482,585
Net current assets	2,170,610	—	—	(18,531)	2,152,079
Total assets less current liabilities	7,609,074	—	—	(18,531)	7,590,543

2.2 **Changes in accounting policy and disclosures**

(i) *New and amended standards adopted by the Group*

The following new and revised standards and amendments to existing standards that have been adopted by the Group, which are mandatory for the financial year of the Group beginning on or after 1 January 2014, are currently relevant and have no material impact on the Group's consolidated financial statements.

- Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.

- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised.

(ii) *New and amended standards not yet adopted by the Group.*

A number of new and revised standards and amendments to existing standards are effective for annual periods beginning after 1 January 2014, and have not been early adopted by the Group.

- Amendment to IAS 19 regarding defined benefit plans is effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2012 are effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2013 are effective for annual periods beginning on or after 1 July 2014.

- IFRS 14 'Regulatory Deferral Accounts' is effective for annual periods beginning on or after 1 January 2016.

- Amendment to IFRS 11 on accounting for acquisitions of interests in joint operations is effective for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 16 and IAS 38 on clarification of acceptable methods of depreciation and amortization is effective for annual periods beginning on or after 1 January 2016.

- Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture is effective for annual periods beginning on or after 1 January 2016.

- Amendment to IAS 27 on equity method in separate financial statements is effective for annual periods beginning on or after 1 January 2016.

- Annual improvements 2014 is effective for annual periods beginning on or after 1 January 2016.

- IFRS15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2017.

- IFRS 9 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2018.

The Group is in the process of making an assessment on the impact of these standards and amendments to standards on the consolidated financial statements of the Group in the initial application. The adoption of the above is not expected to have a material effect on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the board of the Company. The executive directors of the board of the Company review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors of the board of the Company consider the business from product perspective. The Group is engaged in only one business segment, the research and development, manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2014, all sales are from distributors and none of the distributors of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2013: None).

All of the Group's operations, customers and most of the Group's assets are located in the PRC. Accordingly, no geographical analysis of revenue, non-current assets and customers is presented.

4. INTANGIBLE ASSETS

	Goodwill	Customer relationship	Deferred development costs	Product development in progress	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013						
Cost	2,744,495	406,931	727,837	191,171	22,354	4,092,788
Accumulated amortisation	—	(73,465)	(157,527)	—	(6,985)	(237,977)
Impairment	(37,060)	—	(1,063)	(81,658)	—	(119,781)
Net book amount	2,707,435	333,466	569,247	109,513	15,369	3,735,030
Year ended 31 December 2013						
Opening net book amount	2,707,435	333,466	569,247	109,513	15,369	3,735,030
Additions	—	27,001	—	22,314	183	49,498
Transfer	—	—	2,700	(2,700)	—	—
Disposal	—	—	—	(1,307)	(3)	(1,310)
Transfer to disposal group classified as held for sale	(480,499)	—	(271,729)	—	(8)	(752,236)
Impairment charge	—	—	—	(6,979)	—	(6,979)
Amortisation charge	—	(88,693)	(51,638)	—	(3,050)	(143,381)
Closing net book amount	2,226,936	271,774	248,580	120,841	12,491	2,880,622
At 31 December 2013						
Cost	2,263,996	433,932	428,616	209,478	22,521	3,358,543
Accumulated amortisation	—	(162,158)	(178,973)	—	(10,030)	(351,161)
Impairment	(37,060)	—	(1,063)	(88,637)	—	(126,760)
Net book amount	2,226,936	271,774	248,580	120,841	12,491	2,880,622
Year ended 31 December 2014						
Opening net book amount	2,226,936	271,774	248,580	120,841	12,491	2,880,622
Additions	—	—	4,000	38,482	262	42,744
Amortisation charge	—	(77,293)	(27,293)	—	(3,069)	(107,655)
Closing net book amount	2,226,936	194,481	225,287	159,323	9,684	2,815,711
At 31 December 2014						
Cost	2,263,996	433,932	432,616	247,960	22,783	3,401,287
Accumulated amortisation	—	(239,451)	(206,266)	—	(13,099)	(458,816)
Impairment	(37,060)	—	(1,063)	(88,637)	—	(126,760)
Net book amount	2,226,936	194,481	225,287	159,323	9,684	2,815,711

(a) Other intangible assets mainly comprise trademark and software.

5. TRADE AND OTHER RECEIVABLES

	Group	
	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables — third parties	157,817	522,811
Notes receivables	375,202	344,905
Prepaid value added tax	198,283	103,554
Amount receivable from partial disposal of Jilin Sichang Pharmaceutical Co., Ltd.	177,166	165,572
Prepayments to suppliers	107,830	96,544
Prepaid income tax	52,580	91,944
Other receivables	171,788	72,711
	1,240,666	1,398,041

The Group's credit terms granted to customers range from one month to one year. The ageing analysis of trade receivables is as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months	89,900	369,716
3 to 6 months	43,910	38,527
6 months to 1 year	14,696	114,107
More than 1 year	9,311	461
	157,817	522,811

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Group 1	90,160	386,599
Group 2	—	74,805
	90,160	461,404

- Group 1 — customers (less than 6 months) with no defaults in the past.
- Group 2 — customers (more than 6 months) with no defaults in the past.

As at 31 December 2014 and 2013, no trade receivables were impaired and no allowance was made. The trade receivables are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
At 1 January	776,074	717,921
Additions	8,748,780	6,467,400
Disposals	(7,918,180)	(6,410,300)
Change in fair value of available-for-sale financial assets	10,957	1,053
At 31 December	1,617,631	776,074

Available-for-sale financial assets include the following:

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Short-term investments	1,617,631	776,074

The amount represents short-term investments placed in certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC with maturity within 6 months and non-determinable return rate. These investments are all denominated in RMB.

The fair values of these investments are based on average estimated return rate of 4.59% (2013: 4.94%).

The maximum exposure to credit risk as at the reporting date is the carrying value of these investments.

The credit quality of available-for-sale financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. None of these financial assets is either past due or impaired.

7. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares	Number of issued and fully paid ordinary shares	Share capital	Share premium	Total
	'000	*'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January and 31 December 2013 (HK$0.01 per share)	10,000,000	5,175,024	44,419	5,573,951	5,618,370
Movement during 1 January 2014 to 31 December 2014:					
Issuance of ordinary shares	—	7,067	56	42,032	42,088
Increase of authorised ordinary shares	90,000,000	—	—	—	—
Bonus issue of ordinary shares	—	5,182,091	41,135	(41,135)	—
As at 31 December 2014 (HK$0.01 per share)	100,000,000	10,364,182	85,610	5,574,848	5,660,458

8. OTHER LIABILITIES

	As at 31 December		As at 1 January
	2014	2013	2013
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Deferred revenue for sales of distribution right	102,369	94,503	43,200
Deferred government grants	83,881	—	—
Deferred gain on partial disposal of Jilin Sichang	—	—	193,590
	186,250	94,503	236,790
Less: current portion			
Deferred revenue for sales of distribution right	32,107	9,361	5,198
Deferred government grants	64,231	—	—
	96,338	9,361	5,198
Non-current portion	89,912	85,142	231,592

9. BORROWINGS

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Non-current		
- Other loans	3,500	5,880
Current		
- Bank borrowings	—	180,800
	3,500	186,680

At 31 December 2014, the Group's borrowings were repayable as follows:

	As at 31 December			
	Bank borrowings		**Others loans**	
	2014	**2013**	**2014**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	—	180,800	—	—
Between 1 and 2 years	—	—	—	5,880
Between 2 and 5 years	—	—	3,500	—
	—	180,800	3,500	5,880

The borrowings bear average interest rate of 3% (2013: 1.02%) annually.

The fair value of the borrowings approximated their carrying amount, as the impact of discounting is not significant.

10. TRADE AND OTHER PAYABLES

	As at 31 December		As at 1 January
	2014	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Trade payables	40,818	30,793	36,207
Advances from customers	225,056	233,637	91,095
Deferred gain on partial disposal Jilin Sichang Pharmaceutical Co., Ltd.	193,590	193,590	—
Costs of construction and purchase of equipment payable	150,697	49,966	—
Amount payable of related parties	135,906	—	—
Deposit payables	125,759	83,492	79,199
Accured reimbursement to distributors	94,301	480,707	340,092
Accrued performance bonus to directors	66,800	51,200	4,800
Other taxes payable	19,972	37,541	18,323
Salaries payable	14,710	12,340	7,941
Amount payable regarding land use right	—	47,970	—
Advance of compensation from government for demolition of existing premise	—	36,638	30,000
Payable for purchase of customer relationship	—	—	185,000
Payable for the acquisition of subsidiaries	—	—	20,000
Other payables	37,775	97,072	81,140
	1,105,384	1,354,946	893,797

The fair values of trade and other payables approximated their carrying amounts.

At 31 December 2014, the ageing analysis of the trade payable based on invoice date is as follows:

	As at 31 December		As at 1 January
	2014	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	*(Restated)*
Within 6 months	36,736	26,530	30,078
6 months to 1 year	102	87	711
More than 1 year	3,980	4,176	5,418
	40,818	30,793	36,207

11. REVENUE, OTHER INCOME AND OTHER GAINS — NET

	Year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
		(Restated)
Revenue:		
Sales of pharmaceutical products	3,084,236	2,586,402
Other income:		
Sale of distribution right	42,682	27,202
Rental income	3,538	3,079
	46,220	30,281
Other gains — net:		
Government grants	417,238	485,707
Donation	(513)	(8,263)
Processing fee income	—	2,747
Gain on disposal of intangible assets	—	105
Others	35,029	(2,991)
	451,754	477,305

12. EXPENSES BY NATURE

	Year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
		(Restated)
Research and development costs		
Research expenses	121,354	31,990
Amortisation of deferred development costs	27,293	51,638
	148,647	83,628
Raw materials used	633,627	748,675
Employee benefit expenses	299,321	238,757
Depreciation of property, plant and equipment	90,545	42,725
Depreciation of investment properties	1,778	1,639
Amortisation of intangible assets excluding the amortisation of deferred development costs	80,362	91,743
Impairment of intangible assets	—	6,979
Business tax and surcharges	69,203	161,461
Office expenses	53,091	43,795
Changes in inventories of finished goods and work in progress	48,237	15,970
Travelling expenses	38,321	31,967
Professional services expense	25,239	13,184
Transportation expenses	23,683	29,038
Utilities and property management fee	11,976	12,761
Amortisation of land use rights	9,448	8,115
Advertising expenses	6,066	2,475
Auditors' remuneration		
- Audit services	13,000	3,550
- Non-audit services	300	15
Entertainment expenses	5,556	8,213
Others	44,722	52,156
Total cost of sales, distribution costs and administrative expenses	1,603,122	1,596,846

13. FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
		(Restated)
Currency translation loss	(11,715)	—
Bank charges	(472)	(704)
Interest expense	(5,817)	(8,058)
Finance expenses	(18,004)	(8,762)
Currency translation gain	—	23,179
Interest income	116,983	97,958
Finance income	116,983	121,137
Net finance income	98,979	112,375

14. INCOME TAX EXPENSE

	Year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
		(Restated)
Current tax	340,981	142,913
Deferred tax	47,561	167,758
Income tax expense	388,542	310,671

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2014 (2013: nil).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
		(Restated)
Profit before tax	2,073,423	1,602,624
Tax calculated at the PRC statutory tax rate of 25% (2013: 25%)	518,356	400,656
Tax effects of:		
— Withholding tax on the earnings expected to be remitted by subsidiaries	—	33,000
— Utilisation of previously unrecognised tax losses	(2,826)	(4,482)
— Effect of tax reduction and exemption	(150,559)	(131,157)
— Reversal of over provision	—	(122,751)
— Effect on change of effective tax rate	—	81,597
— Expenses not deductible for tax purposes	21,466	50,203
— Tax losses for which no deferred income tax asset was recognised	2,105	3,605
Income tax expense	388,542	310,671

15. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2014	**2013**
		(Restated)
Profit attributable to owners of the Company *(RMB'000)*	1,671,281	1,284,882
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	10,363,369	10,350,048
Basic earnings per share *(RMB cents per share)*	16.13	12.41

(b) Diluted

There is no dilution to earnings per share during 2014 and 2013 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

16. DIVIDENDS

The dividends paid in 2014 were RMB243,558,000 with a bonus issue of one bonus ordinary share at par value of HK$0.01 each for every 1 ordinary share held on the Bonus Issue Record Date (2013: cash dividend of RMB522,677,000).

Final cash dividend for the year ended 31 December 2014 of RMB134,734,000 is recommended by the board and is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend to be declared.

17. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Property, plant and equipment	215,150	310,748
Commitment of additional capital injection to Renfang Medical Holdings Ltd.	156,124	—
Land use rights	58,179	—
Intangible assets — product development in progress	18,447	20,481
Commitment of investment in an associate	15,000	—
	462,900	331,229

(b) Operating lease commitments

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
No later than 1 year	975	5,333
Later than 1 year and no later than 2 years	1,166	900
Later than 2 years	300	1,200
	2,441	7,433

MANAGEMENT DISCUSSION AND ANALYSIS

The year 2014 was one in which Sihuan Pharmaceutical brought its operational capabilities to the test. The market was impacted by intensifying market competition, tightening of the medical insurance budget by the state, as well as further delays in the provincial tender process with lower tender prices in several completed provincial tenders.

Facing such pressures, Sihuan Pharmaceutical leveraged on its solid business foundation and its flexible and proven business strategies. It maintained growth momentum and above-market average profitability, and achieved sound operational results. The Group also achieved breakthroughs in in-house research and development ("**R&D**") of new drugs and deepened cooperation with renowned research institutions. The Group's overall business operations and management level reached a new high. These initiatives showcased Sihuan Pharmaceutical's strength in coping with market instability and making progress against such a backdrop.

(I) BUSINESS REVIEW

In 2014, the Group continued to maintain a stable operational growth momentum, with profit attributable to owners of the Company increased by 30.1% year-on-year. Sales revenue increased by 19.2% year-on-year. The Group's promising products maintained strong growth in sales, while the Group's established products also recorded steady sales growth. In addition, the Group's R&D of new drugs achieved breakthrough progress by successfully taking the first step towards international development. During the Year, the Group continued to improve its production systems and cost-control.

According to IMS Health Incorporated ("**IMS**"), the Group maintained its No. 1 position in the cardio-cerebral vascular ("**CCV**") prescription drug market of China in 2014, with market share reaching 10.97% in terms of hospital purchase. Moreover, the Group was ranked as the fourth largest pharmaceutical company in the Chinese hospital market. This further reinforced the Group's leading position in China's CCV prescription drug market and hospital market.

(i) **Sales of Key Products**

(a) **CCV products**

In 2014, sales of CCV products accounted for 91.3% of the Group's total revenue.

The Group's two core key products, Kelinao and Oudimei, recorded strong sales growth. The sales of the Group's promising products such as Oudimei, Yuanzhijiu, Yeduojia, Danshen Chuanxiongqin and Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection grew by over 35%. Sales of some of the Group's promising products grew by over 50%, namely Yuanzhijiu and Danshen Chuanxiongqin. The sales of some established products such as Qu'Ao, GM1 and Chuangqing, etc, have been affected by the product supply shortage in the first half of 2014. The Group saw improvement in the second half of the Year.

Sales of key CCV products:

	Revenue for the year ended 31 December		
	2013 *(Restated)*	**2014**	**Change in sales**
Product name	*(RMB'000)*	*(RMB'000)*	**year-on-year**
Kelinao (Cinepazide maleate injection)	385,001	502,478	30.5%
Anjieli (Cinepazide maleate injection)	67,668	137,522	103.2%
Oudimei (Cerebroside- kinin injection)	438,452	611,513	39.5%
Yuanzhijiu (Troxerutin and cerebroproptein hydrolysate injection)	188,471	328,038	74.1%
Yeduojia (Compound trivitamin B for injection (II))	79,362	120,414	51.7%

Product name	Revenue for the year ended 31 December		Change in sales year-on-year
	2013 *(Restated)* *(RMB'000)*	2014 *(RMB'000)*	
Danshen Chuanxiongqin injection (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	133,952	204,397	52.6%
Yimaining (Alprostadil lipid emulsion injection)	193,824	238,934	23.3%
Guhong injection (Compound of aceglutamide and safflower extract)	328,451	177,688	-45.9%
Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection	14,791	21,455	45.1%
Chuanqing (Ligustrazine hydrochloride for injection)	97,429	85,464	-12.3%
GM1 (Monosialotetrade osylganglioside sodium injection)	218,070	148,471	-31.9%
Qu'Ao (Cerebroprotein hydrolysate)	103,555	112,266	8.4%
Qingtong (Edaravone injection)	75,794	77,352	2.1%
Scutellarin Glucose/Injection	559	1,619	189.7%

(b) **Non-cardio-cerebral Vascular products ("Non-CCV products")**

In 2014, the Group achieved steady performance in the sales of its non-CCV products. Several key products achieved sustainable growth in sales.

Sales of anti-epileptic drug Ren'Ao (Oxcarbazepine) rose 35.1% year-on-year, while sales of respiratory system drugs Zhuo'Ao and Bi'Ao (Ambroxol hydrochloride) increased by 9.2% and 9.5% year-on-year, respectively. Sales of Luoanming (Amino acid injection) rose 18.5% year-on-year. Clindamycin, a drug on the national Essential Drug Lists ("**EDLs**"), grew rapidly and achieved sales revenue of RMB34.7 million although with tender wins in only two provinces. The market expansion of newly-launched products Roxatidine and Huineng was hindered by a further delay in the tender process in 2014.

Sales of key Non-CCV products:

Product name	For the year ended 31 December		Change in sales year-on-year
	2013 *(Restated)*	**2014**	
	(RMB'000)	*(RMB'000)*	
Ren'Ao (Oxcarbazepine)	14,616	19,747	35.1%
Zhuo'Ao (Ambroxol hydrochloride)	17,673	19,301	9.2%
Bi'Ao (Ambroxol hydrochloride)	52,214	57,170	9.5%
Luoanming (Amino acid injection)	72,910	86,398	18.5%
Clindamycin	—	34,671	—
Roxatidine	725	2,606	259.7%
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	—	67	—

(ii) **Sales and Marketing**

With regards to sales and marketing, the Group's focus in 2014 was to increase market coverage and deepen penetration of promising products by seizing all opportunities in provincial tender wins and supplementary tender submissions. Meanwhile, the Group deepened the penetration of established products into low-end markets through their inclusion in the provincial EDLs and provincial New Rural Cooperative Medical Scheme Lists ("**NRCMSLs**").

In 2014, the Group's key products and newly-launched products achieved good results in several completed provincial drug tenders, scoring several provincial EDLs wins, non-EDLs wins, military tender wins and supplementary tender submissions. In non-EDL tenders of Jilin Province, Hainan Province, Shanghai Municipality (first batch) and Chongqing Municipality, the Group's key products and newly launched products won the tenders with reasonable bids. In EDL tenders of Guangdong Province, Jilin Province, Hubei Province, Anhui Province, Gansu Province, etc., the Group's EDL products all won the respective tenders. Encouraging results were also seen in supplementary tender submissions in Hubei Province, Shandong Province and Liaoning Province, as well as military tender wins in Guangzhou Military Region and People's Liberation Army Xinjiang Uighur Autonomous Region Garrison.

By the end of 2014, market coverage of our promising products, new products and established products all grew.

Oudimei and Yuanzhijiu reached 24 and 23 provinces, respectively, while market coverage of Yeduojia and Yimaining expanded to more than 15 provinces. Danshen Chuanxiongqin expanded its market coverage to 10 provinces by tender wins. Market coverage of new product Roxatidine, after tender wins in the Xinjiang Uighur Autonomous Region and Jinlin province and supplementary tender submissions in Jiangsu Province, has expanded to 7 provinces, including new tender wins in the Guangzhou Military Region and supplementary tender submissions in Shandong Province, Hubei Province and Liaoning Province. Market coverage of newly-launched product Huineng has expanded to 4 provinces, as a result of tender wins in Jilin Province and the Xinjiang Uighur Autonomous Region, military tender wins in the Guangzhou Military Region and supplementary tender submissions in Shandong Province.

In addition to tender submissions, the Group also actively seek opportunities to include products in various provinces' Drug Reimbursement List ("**DRL**"), EDL and NRCMSL. Kelinao was included in the EDL of Guangdong Province, Xinjiang Uighur Autonomous Region and Anhui Province. Oudimei was included in the EDL of Hubei Province and Xinjiang Uighur Autonomous Region. Yuanzhijiu was included in the EDL of Guangdong Province and Chongqing Municipality. Chuanqing was included in the EDL of Guangdong Province, Xinjiang Uighur Autonomous Region, Anhui Province, Gansu Province and Zhejiang Province. Yimaining was included in the EDL of Hubei Province and Anhui Province. GM1 was included in the EDL of Anhui Province, Hubei Province and Xinjiang Uighur Automatous Region. The newly launched products Roxatidine and Huineng were successfully included in the DRL of Xinjiang Uighur Automatous Region. Oudimei, Yimaining, Chuanqing and Metronidazole were successfully included in the supplementary submissions of NRCMSL of Hubei Province. Moreover, Kelinao, Oudimei and Chuanqing also entered the NRCMSLs of more than 10 provinces respectively.

Academic promotional activities closely followed the progress of tendering and market coverage. In 2014, the Group achieved record-highs in organizing a total of 5,231 academic promotional activities, including 5,038 small seminars at the department and hospital levels, 116 regional medium-sized academic conferences and 77 national medical conferences. Furthermore, the Group organized 1,989 professional training sessions for distributors. Large and medium-sized conferences further enhanced the brand image of Sihuan Pharmaceutical and its products, while small seminars at the department and hospital levels effectively promoted the products' market expansion and sales.

The Group conducted clinical studies on its two core products, Kelinao and Oudimei, to further enhance physicians' understanding of the products. The study titled "Mechanism study of cinepazide maleate on brain ischemia injury" (桂哌齊特抗腦缺血損傷機制研究), led by Xijing Hospital (西京醫院), explored the uniqueness of cinepazide maleate (桂哌齊特) as a calcium channel blocker. The paper "Cinepazide maleate protects PC12 cells against oxygen—glucose deprivation injury" (桂哌齊特保護PC12細胞阻止缺氧缺糖損傷) was published in the June 2014 issue of Neurological Sciences. The study titled "The Real-World-Research on Kelinao" (克林澳真實世界研究) led by The Third Hospital of Peking University (北京大學第三醫院) has completed safety observation on over 18,000 patients. The data have been collected from clinical centers, and preliminary safety evaluation has been completed. The post-launch drug revaluation of Oudimei, "Clinical Studies for Cerebroside-Kinin for Treatment of Ischemic Stroke" (腦苷肌肽對缺血性中風治療的臨床研究) led by The Third Hospital of Peking University (北京大學第三醫院) and the "Clinical Studies for Cerebroside-Kinin for Treatment of Hypertensive Intracerebral Hemorrhage" (腦苷肌肽對高血壓腦出血治療的臨床研究) led by The General Hospital of People's Liberation Army (中國人民解放軍總醫院) have successfully recruited over 80% of patients. The study titled "Research on Cerebroside-Kinin for Treatment of Alzheimer's Disease" (腦苷肌肽對老年癡呆治療的研究) led by The General Hospital of People's Liberation Army (中國人民解放軍總醫院) has completed.

To boost market expansion of the newly-launched products, the Group also initiated the post-launch clinical studies on such products. The research project "The Pharmacological Action and Clinical Evaluation of Roxatidine Acetate" (羅沙替丁醋酸酯藥理作用與臨床評價) led by Beijing Hospital (北京醫院) has been successfully completed, and published on the "Chinese Journal of New Drugs" (2014, 23 (14) : 1601-5), which provided professional guidance to physicians on the newly launched drug.

(iii) **R&D**

The Group's innovative drug R&D division, Shandong Xuanzhu Pharmaceutical Technology Co., Ltd. ("**Xuanzhu Pharma**"), filed an application for clinical trial of Janagliflozin (加格列淨), a Category 1.1 innovative drug, to the China Food and Drug Administration ("**CFDA**") in the first half of 2014, and has received official acceptance of the application (acceptance number: CXHL1400849 and CXHL1400850). In the second half of 2014, the division received approval of clinical trials for Tylerdipine Hydrochloride, another Category 1.1 innovative drug from CFDA. By the end of 2014, the division has successfully filed a total of eight internally developed Category 1.1 innovative drugs, and five of them have received approval for clinical trials. Phase Ia and Ib clinical trials of Imigliptin Dihydrochloride (鹽酸依格列清) have completed as planned with encouraging results from the completed studies, which showed tremendous safety therapeutic window. Currently, it has entered into Phase Ic clinical trials directed at patients and have made smooth progress. Clinical trials of Anaprazole Sodium (安納拉唑鈉) and Benapenem (百納培南), two other Category 1.1 innovative drugs, also successfully commenced during the Year.

Worthy of mentioning was that at the end of 2014 the Group successfully filed an Investigational New Drug ("**IND**") application for Pirotinib (哌羅替尼) to the United States ("**U.S.**") Food and Drug Administration ("**FDA**") and officially granted clinical trial approval. The first patient has been successfully enrolled for clinical trials in the U.S.. This further showcased the Group's breakthrough progress in the international development of new drugs.

Several new production license applications were filed by the Group's generic drug division, the Beijing Aohe Drug Research Institute, during the Year. We have filed applications for a total of 27 generic drugs to be approved for production by the end of 2014, including Bisoprolol Fumarate (富馬酸比索洛爾), Losartan Potassium (氯沙坦鉀), Lansoprazole (蘭索拉唑), Esomeprazole (埃索美拉唑), Fasudil Hydrochloride (鹽酸法舒地爾), Octreotide Acetate (醋酸奧曲肽), Vinpocetine (長春西汀), Flurbiprofen Axetil (氟比洛芬酯), Oxiracetam (奧拉西坦), Esomeprazole Sodium (埃索美拉唑鈉), Caspofungin Acetate (醋酸卡泊芬淨) etc. These products are expected to be launched to the market in the next three years. Also, more than 20 new projects commenced development during the Year. In total, the Group has over 70 generic drugs under development, among which 22 are Category 3 new drugs such as Levetiracetam Injection (左乙拉西坦注射劑), Lacosamide (拉科醯胺), Ornithine Aspartate Injection (Hepa-Merz) (門冬氨酸鳥氨酸注射劑), Rivastigmine Hydrogen Tartrate Capsules (重酒石酸卡巴拉汀膠囊), Caspofungin Acetate for Injection (注射用醋酸卡泊芬淨), Flupirtine Maleate Capsules (馬來酸氟吡汀膠囊), Divalproex sodium Tablets (雙丙戊酸鈉腸溶片), Revaprazan Hydrochloride (鹽酸洛氟普啶) and (R)-Lansoprazole (右旋蘭索拉唑).

Phase III clinical trial of L-Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category 1.3 innovative drug, has completed and currently the data is under review. Phase II clinical trial of Cinepazide Mesilate (甲磺酸桂哌齊特), a Category IV exclusive new drug, is close to completion.

In addition to in-house R&D, we achieved milestone developments in our cooperation with renowned research institutions. The Group's product pipeline was further enhanced in terms of quality and quanity through collaboration with

Chongqing Peg-Bio Biotechnology Co., Ltd, with the development of five insulin products, which include Active Pharmaceutical Ingredient ("**API**") and Finished Pharmaceutical Product ("**FPP**") of Recombinant Degludec Insulin (重組德穀胰島素), API and FPP of Recombinant Aspart Insulin (重組門冬胰島素), API and FPP of Recombinant Regular Insulin (重組普通胰島素), and two mix FPP of Insulin.

In addition, the Group applied for a total of RMB20.7 million worth of national and provincial science and technology grant in 2014. Of this, RMB12.7 million had already been disbursed, including major projects such as Imigliptin Dihydrochloride (鹽酸依格列汀), Benapenem (百納培南) and L-Phencynonate Hydrochloride (左旋鹽酸苯環壬酯).

(iv) **Production Management and Quality Control**

After the upgrading and certification of the new Good Manufacturing Practice ("**GMP**") standards in 2013, the Group's production facilities gradually achieved smooth operations. Our quality control and production management system has been further enhanced to be able to meet market demand. All facilities did not record any quality-related incidents.

The production facility of the Group's APIs business, Langfang Gaobo Jingband Pharmaceutical Co., Ltd ("**Langfang Gaobo Jingband**"), passed an on-site inspection by the FDA in July 2013 and received an Establishment Inspection Report ("**EIR**") from the FDA in the first half of 2014. The Group's collaboration with overseas enterprises, such as Canada-based Apotex Inc and India's Dr. Reddy's Laboratories Ltd. also commenced smoothly.

In spite of rising raw material and labor costs in recent years, the Group maintained cost efficiency of its production system by expanding the scale of production and improving the manufacturing process and management.

(v) **Investment and Acquisitions**

In terms of capital operations, the Group also achieved progress. At the end of 2014, the Group entered into a share acquisition and capital injection agreement with Beijing Ruiye Drugs Manufacture Co. Ltd. ("**Beijing Ruiye**"). The Group will be interested as to 39% of the shares of Beijing Ruiye after completion of the share acquisition and capital injection, and will enjoy priority in the marketing and distribution of all products manufactured by Beijing Ruiye, which have high technical barriers and excellent properties, adding new competitive impetus to the Group's rich product portfolio.

During the Year, the Group, as an equity shareholder, made indirect investments in the medical service sector by injecting capital into Renfang Medical Holdings Ltd. ("Renfang") established by Sun Moral International Ltd. ("Sun Moral"), a wholly-owned subsidiary of the Group, along with two investors, namely, NHPEA IV Health Holding B.V. ("NHPEA IV Health" formerly known "MSPEA Health Holding B.V.") and Euromax Holdings Limited ("Euromax").

(II) FUTURE PROSPECTS

(i) Industry outlook

Fueled by rapid urbanization, China's ageing population, a worsening living environment and the increasing stress of modern society, the rigid demand in the domestic pharmaceutical market will continue to grow. Meanwhile, the market potential brought by the expansion of national medical insurance coverage is far from being fully realized, which will undoubtedly power the growth momentum of the pharmaceutical industry.

On the other hand, the government has been curbing excessive growth of medical insurance expenditure. The pharmaceutical industry will face enormous challenges with the soon-to-be initiated reform on drug prices, lowering of provincial tender prices and in-depth structural reforms in hospitals. Moreover, a rising industrial entry threshold, high technical standards and stringent regulatory controls will speed up the polarization and consolidation of the pharmaceutical industry.

Faced with challenges in 2015 and the next few years, the Group firmly believes that intensifying competition will actually continue to accelerate market consolidation. Pharmaceutical companies equipped with integrated capabilities will benefit from furthered market consolidation and concentration and continue to flourish in the long run.

(ii) 2015 and Future Outlook

Future growth guaranteed by rich promising products

The current comprehensive and diversified product portfolio will sustain the growth of Sihuan Pharmaceutical in 2015 and the next few years. The Group's promising products such as Oudimei, Yuanzhijiu, Yeduojia, Danshen Chuanxiongqin and Yimaining still have considerable market potential. In addition, newly-launched products such as Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection, Roxatidine, Huineng, Breviscapine Sodium Chloride Injection, together with products such as Clindamycin (克林黴素) and Metronidzole (甲硝唑), which have been successfully included in national EDLs, are products with enormous market potential and will sustain the growth of Sihuan Pharmaceutical over the next few years.

To go a step further, the Group will continue to seize all opportunities for tender wins and supplementary tender submissions while expanding to tier three and four low-end markets in the economically developed regions, to support sales growth of these promising products.

Strong product pipeline diversified by multiple pathways

More importantly, the Group has a proven capability of obtaining new product resources through R&D, acquisitions and collaborations. Our blockbuster innovative proprietary drug and first-to-market generic drug are set to launch in three years. Meanwhile, we will actively seek opportunities for acquisitions and collaborations. The steady stream of product resources will sustain the Group's business growth in the long-run.

Outstanding sales and marketing capabilities strengthened by timely adjustments of market strategies

The Group will enhance its strong sales and marketing capabilities by making timely adjustments to its strategies and continuing to strengthen its marketing network. In addition, the Group will further step up academic promotions. We will also improve the professional training and the quality of education provided to our marketing team and distributors to keep pace with a changing and developing market.

(iii) Outlook

Withstanding market challenges in 2014 has exemplified Sihuan Pharmaceutical's resilience against instability, which is backed by our outstanding product pipeline, strong capabilities in R&D, sales and marketing and product resources integration. Looking ahead, Sihuan Pharmaceutical will effectively navigate through challenges, promptly adjust business strategies, further reinforce its operational foundation and actively seek opportunities for development. All in all, we are poised to capture opportunities for development from the new wave of consolidation and integration and to strengthen our market leadership in the pharmaceutical industry.

(III) FINANCIAL REVIEW

Turnover

In 2014, the Group continued to strengthen its CCV drugs business while promoting sales of its products of other therapeutic areas. A stable growth trend was shown in the sales operations of the Group with total revenue increased by approximately RMB497.8 million or 19.2% from RMB2,586.4 million in 2013 to RMB3,084.2 million in 2014.

Sales of CCV drugs for the Year amounted to approximately RMB2,816.9 million, representing an increase of approximately RMB458.2 million when compared with 2013, which accounted for approximately 91.3% of the Group's total revenue.

Revenue derived from anti-infective drugs decreased slightly by approximately 1.8% from RMB40.8 million in 2013 to RMB40.1 million in 2014, accounting for approximately 1.3% of the Group's total revenue. Revenue from sales of other drugs increased by approximately 13.2% to RMB198.3 million, accounting for approximately 6.4% of the Group's total revenue.

Revenue derived from sales of APIs increased by 146.9% to RMB 28.9 million, accounting for approximately 0.9% of the Group's total revenue.

Cost of sales

The Group's cost of sales for the Year amounted to approximately RMB972.8 million, accounting for approximately 31.5% of the total revenue.

Gross profit

Gross profit of RMB2,111.4 million was recorded for the Year, representing an increase of approximately RMB655.9 million when compared with RMB1,455.5 million in 2013. Overall gross profit margin increased from 56.3% in 2013 to 68.5% in 2014, which was mainly due to change of product mix.

Other net gains

Other net gains declined from RMB477.3 million in 2013 to RMB451.8 million in 2014. This was mainly due to lesser government grants received in 2014 by the Group.

Distribution costs

Distribution costs increased by RMB11.1 million to RMB150.2 million in 2014 as compared to 2013.

Administrative expenses

Administrative expenses increased by 46.9% from RMB326.8 million in 2013 to RMB480.1 million in 2014. The increase was primarily due to an increase in administrative expenses related to the operational expansion of the Group and an increase in the Group's investment in R&D.

Net finance income

Net finance income decreased from RMB112.4 million in 2013 to RMB99.0 million in 2014. The decrease was mainly due to the decrease in foreign exchange gains of the Group.

Profit before income tax

Due to the aforesaid, the Group's profit before income tax increased by 29.4% from RMB1,602.6 million in 2013 to RMB2,073.4 million in 2014.

Income tax expenses

Our income tax expenses increased by 25.1% from RMB310.7 million in 2013 to RMB388.5 million in 2014.

Profit for the Year

Due to the aforesaid, the Group's net profit increased by 30.4% from RMB1,292.0 million in 2013 to RMB1,684.9 million in 2014.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by 30.1% from RMB1,284.9 million in 2013 to RMB1,671.3 million in 2014.

Non-controlling interests

Non-controlling interests increased by RMB6.5 million from RMB7.1 million in 2013 to RMB13.6 million in 2014.

Liquidity and financial resources

As at 31 December 2014, the Group's cash and cash equivalents amounted to RMB1,317.9 million (31 December 2013: RMB1,593.5 million), term deposits with maturities of over three months amounted to nil (31 December 2013: RMB233.7 million), and available-for-sale financial assets amounted to RMB1,617.6 million (31 December 2013: RMB776.1 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash for short-term investments in order to obtain better returns. Therefore, members of the Group entered into agreements with certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC to invest the extra cash. According to such agreements, during the Year, the total amount of investment by members of the Group amounted to RMB1,604.6 million. The investments made by the Group according to these agreements were categorized as short-term investments, which mainly consisted of financial planning products purchased from certain state-owned banks and reputable international financial institutions outside of PRC. For the said financial planning products, the issuing banks of such financial planning products may invest the Group's funds at their discretion into financial instruments such as treasury bonds, discounted bank acceptances, commercial acceptance bills and bank deposits. The investment principal of RMB1,604.6 million plus interest of approximately RMB13.0 million in aggregate amounted to approximately RMB1,617.6 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2014. As at the date of this announcement, total amount of sold/repaid investment principal amounted to RMB1,604.6 million.

Save as disclosed below, the Group did not have other liabilities and bank loans.

The Group has sufficient cash as at 31 December 2014. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December 2014 *RMB'000*	**As at 31 December 2013** *RMB'000* *(Restated)*
Cash and cash equivalents	1,317,945	1,593,503
Less: Borrowings	(3,500)	(186,680)
	1,314,445	1,406,823

Trade and other receivables

The Group's trade receivables consist of credit sales of our products to be paid by our distributors. Other receivables consist of an amount receivable from Shandong Buchang Pharmaceutical Co. Ltd., prepaid value added tax, prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables were RMB1,240.7 million as at 31 December 2014, representing a decrease of approximately RMB157.3 million when compared with trade and other receivables of RMB1,398.0 million as at 31 December 2013, which was mainly due to the decrease in credit sales resulting from the effects of sales policies.

Inventory

Inventory as at 31 December 2014 amounted to RMB177.2 million (as at 31 December 2013: RMB101.3 million). Inventory turnover days of finished products were 26.0 days in 2014 (2013: 17.2 days). We had no inventory impairments during 2014.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 31 December 2014, the net book value of property, plant and equipment amounted to RMB1,704.1 million, representing an increase of approximately RMB262.5 million, or approximately 18.2%, as compared with the previous year. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Intangible assets

The Group's intangible assets mainly consist of goodwill, customer relationships, patents, deferred development costs and product development in progress. The Group's goodwill arose from acquisitions of the subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions and its self-developed R&D projects. As at 31 December 2014, net intangible assets amounted to RMB2,815.7 million (31 December 2013: RMB2,880.6 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, accrued expenses and other payables. As at 31 December 2014, trade and other payables amounted to RMB1,105.4 million, representing a decrease of approximately RMB249.6 million as compared with 31 December 2013. The decrease was mainly due to the decrease in payable of the accrued reimbursement to distributors at the end of 2014.

Contingent liabilities and guarantees

As at 31 December 2014, the Group had no material contingent liabilities or guarantees.

Off-balance sheet commitments and arrangements

As at 31 December 2014, apart from the capital and operating lease commitment disclosed, the Group has not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payment liabilities of any third parties. The Group did not have any variable interests in any unconsolidated entities that provide financing or liquidity, create market risk or offer credit support to us or engage in the provision of leasing, hedging or R&D services to the Group.

Capital commitment

As at 31 December 2014, the Group had a total capital commitment of RMB462.9 million, mainly set aside for the acquisition of property, plant and equipment and intangible assets and investment in associated companies.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss to us. We have no significant concentrations of credit risk. Credit risk arises mainly from cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The carrying amounts of cash equivalents, short-term bank deposits, trade and other receivables and available-for-sale financial assets represent our maximum exposure to credit risk in relation to our financial assets.

With respect to cash and cash equivalents, we manage the credit risk of cash in the PRC by placing our bank deposits in large PRC state-owned banks without significant credit risks. We manage the credit risk of cash outside the PRC by placing our bank deposits in financial institutions that have high credit quality.

With respect to trade and other receivables, we have policies in place to ensure certain cash advances are paid by customers upon entering into the agreement related to sales orders. We assess the credit quality of the counterparties by taking into account their financial positions, credit histories and other factors. We also undertake certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. We regularly perform ageing analysis, assess credit risks and estimate the recoverability of groups of trade receivables bearing similar credit risks based on historical data and cash collection history.

No other financial assets bear a significant exposure to credit risk.

Foreign exchange risk

RMB is the functional currency of the Company and its subsidiaries. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency. Nevertheless, dividend payment of foreign currency converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2014, the Group had no outstanding borrowings denominated in a foreign currency.

For the year ended 31 December 2014, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury Policies

The Group finances its ordinary operations with internally generated resources.

Capital expenditure

Our capital expenditure primarily consists of purchase of property, plant and equipment, land use rights and intangible assets. In 2014, our capital expenditures amounted to RMB752.9 million, of which RMB301.8 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets increased by RMB191.7 million, and the remaining RMB259.4 million was spent on land use rights.

Material acquisition and disposal

In 2014, the Group, as an equity shareholder, made indirect investments in the medical service sector by injecting USD49.3 million (equivalent to RMB301.7 million) into Renfang, which is established by Sun Moral along with two investors. Renfang is owned as to 38.14% by the Group.

Pledge of assets

As at 31 December 2014, none of our assets were pledged.

Human Resources and Remuneration of Employee

Human resources are indispensable assets to the success of the Group in a competitive environment. The Group provides competitive remuneration package to all employees. The Group reviews its own human resources and remuneration policy regularly, to encourage employees to work towards enhancing the value of the Group and promoting the long-term growth of the Group.

As at 31 December 2014, the Group had 2,797 employees. For the year ended 31 December 2014, total salary and related costs of the Group was approximately RMB299.3 million (2013: RMB238.8 million).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of the Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company (the "**Shareholders**").

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this announcement as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "**Code**"), as set out in Appendix 14 to the Listing Rules throughout the Year save and except from the deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated, from 1 January 2014 to 20 October 2014. Prior to 20 October 2014, Dr. Che Fengsheng held the roles of both chairman and chief executive officer of the Company. The Board considered that Dr. Che Fengsheng, as one of the main founders of the Company and possessing extensive medical and pharmaceutical industry knowledge together with unique strategic perspective, was suitably qualified to lead the Company and formulate effective strategies to react promptly to market changes and new challenges. His service in both roles was beneficial to the stable and healthy development of the Company. However, in order to enhance the level of corporate governance, Dr. Che Fengsheng ceased to be the chief executive officer of the Company, and Dr. Guo Weicheng, the deputy chairman and an executive Director of the Company, was appointed as the chief executive officer of the Company with effect from 20 October 2014. Subsequent to the resignation of Dr. Che Fengsheng and appointment of Dr. Guo Weicheng as chief executive officer of the Company, the Company has complied with all the applicable code provisions of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") in accordance with the requirements of Rule 3.21 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to assist the Board to provide an independent view on the effectiveness of the financial reporting procedures, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. As at the date of this announcement, the Audit Committee consists of one non-executive Director (Dr. Zhang Jionglong) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy.

The Audit Committee had reviewed the Group's financial reporting matters and the internal control system in relation to finance and accounting and submitted improvement proposals to elaborate on the work performed by the Audit Committee to the Board.

The annual results of the Group for the year ended 31 December 2014 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are, among others, to review the structure, size and composition of the Board, to assess the independence of the independent non-executive Directors and to make recommendations to the Board on matters relating to the appointment of Directors. As at the date of this announcement, the Nomination Committee consists of one executive Director (Dr. Guo Weicheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Tsang Wah Kwong.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") in accordance with the requirements of Rule 3.25 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are, among others, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendations to the Board on the Group's policy and structure for remuneration of all our Directors and senior management. As at the date of this announcement, the Remuneration Committee consists of one executive Director (Dr. Che Fengsheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Zhu Xun.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers were engaged to audit the consolidated financial statements of the Group and a disclaimer of opinion was issued. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2014:

"**Basis for Disclaimer of Opinion**

As disclosed in note 2.2 to the consolidated financial statements, during 2014 the Company received an external enquiry (the "**Enquiry**") as to how the Group has been conducting its sales and marketing activities, which may have an impact on the accounting treatment that the Group adopted in the past for certain sales revenue and distribution expenses, as well as other financial reporting matters.

In response to the Enquiry, the audit committee of the Company (the "**Audit Committee**") conducted an independent investigation (the "**Investigation**") involving, among others, assistant from a third party consultant in relation to the matters raised in the Enquiry.

As detailed in note 2.2 to the consolidated financial statements, based on the findings of the Investigation, the directors of the Company considered it appropriate to make adjustments to the Group's consolidated financial statements for the year ended 31 December 2013 and before, and consequently prior year adjustments were recorded by the Group in respect of the following matters:

(1) *Sales model adopted since 2011 and reimbursement to distributors*

(a) Certain marketing research agents ("**Consolidated MRAs**"), whose sole activities are the provision of marketing related services to the Group, were previously considered as third parties but now, based on the substance of the transactions, were considered to be controlled by the Group. Prior year adjustments were raised to consolidate these Consolidated MRAs in the consolidated financial statements of the Group.

As a result of these prior year adjustments, total income/gains and expenses of RMB78,521,000 and RMB78,521,000, respectively; cash and cash equivalents and trade and other payables of RMB64,833,000 and RMB64,833,000, respectively were adjusted and included in the Group's consolidated financial statements as at and for the year ended 31 December 2013. In addition, cash and cash equivalents and trade and other payables of RMB10,361,000 and RMB10,361,000 were adjusted and included in the Group's consolidated financial statements as at 1 January 2013. Total income/gains and expenses of RMB30,114,000 and RMB30,114,000, respectively; and cash and cash equivalents and trade and other payables of RMB2,320,000 and RMB2,320,000, respectively relating to the Consolidated MRAs were consolidated in the Group's consolidated financial statements as at and for the year ended 31 December 2014.

(b) The marketing and promotion expenses paid by the Group to its marketing research agents (including those paid to the Consolidated MRAs) under a revised sales model adopted by the Group since 2011 were eventually reimbursed, directly or indirectly, to the Group's distributors

("**Reimbursement Activities**"). The Directors of the Company considered that the relevant marketing and promotional expenses should be adjusted and accounted for as a reduction of revenue earned from the distributors since 2011.

As a result, a prior year adjustment was recorded to offset the related revenue and distribution costs of RMB2,146,298,000 for the year ended 31 December 2013. The corresponding amounts for year 2012 and before amounted to RMB1,714,514,000. For the year ended 31 December 2014, total distribution costs that have been offset against revenue amounted to RMB810,935,000.

(2) *Off-book transactions conducted through employees' personal bank accounts*

The Group had certain off-book transactions that were conducted through certain personal bank accounts (referred to as "**off-book transactions**") opened in the names of certain employees of the Group. These off-book transactions and balances were not previously accounted for and recorded in the Group's consolidated financial statements. The Directors of the Company considered that the prior year consolidated financial statements should be adjusted. As a result of these prior year adjustments, total income/gains and expenses of RMB10,589,000 and RMB28,719,000, respectively; and total assets and liabilities of RMB20,594,000 and RMB81,440,000, respectively were adjusted and included in the Group's consolidated financial statements as at and for the year ended 31 December 2013. In addition, total assets and liabilities of RMB12,780,000 and RMB55,496,000 were adjusted and included in the Group's consolidated financial statements as at 1 January 2013. Total income/gains and expenses amounting to RMB10,217,000 and RMB4,151,000, respectively; and total assets and liabilities amounting to RMB64,531,000 and RMB119,311,000, respectively relating to the off-book transactions were included in the Group's consolidated financial statements as at and for the year ended 31 December 2014.

The details of these prior year adjustments together with their impacts are described in note 2.2 to the consolidated financial statements.

In our prior years' audits, we were not aware of nor were we informed by management or the Directors of the Company of the fact that the Consolidated MRAs are controlled by the Group, the existence of the Reimbursement Activities with the distributors and marketing research agents, as well as the off-book transactions. In response to these matters, we have performed extended procedures in the current year's audit, including a review of the findings of the Investigation. However, there were limitations encountered in our audit as outlined below.

We were not able to obtain sufficient documentary evidence to assess whether the Consolidated MRAs are controlled by the Group and whether other marketing research agents ("**MRAs**") not currently consolidated in the Group's financial statements are in fact also controlled by the Group such that consolidation of these other MRAs are necessary. In addition, the Group did not maintain a complete set of books and records of the aforesaid Consolidated MRAs to enable us to determine whether the balances and transactions of these Consolidated MRAs were free from material misstatements. In addition, the Consolidated MRAs have been taxed in the local province for corporate income tax purposes on a deemed taxation basis irrespective of the expenses recorded by these Consolidated MRAs. The Directors of the Company are of the opinion that there are no additional tax liabilities for these Consolidated MRAs even though these expenses represented reimbursements to the distributors of the Group. However, management was not able to provide us with sufficient documentary evidence to support the deemed taxation basis adopted by the Consolidated MRAs for tax reporting purpose.

We were not able to obtain sufficient and adequate documentary evidence to validate the Reimbursement Activities mentioned above as the reimbursement transactions were not all supported by complete or properly authorised reimbursement payment requests and authorisation letters from distributors, among others. We have also not received satisfactory confirmation replies from the Group's distributors and other relevant parties to confirm the Reimbursement Activities and the related transactions.

Management was not able to provide us with satisfactory supporting documents to support the personal bank accounts are held by those individuals on behalf of the Group. In addition, management did not maintain adequate accounting records and supporting documents for the off-book transactions conducted through these employees' personal bank accounts. We were also not able to obtain sufficient evidence to assess whether there are other off-book transactions not recorded by the Group.

Because of the above scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to:

(1) whether the Consolidated MRAs are in fact controlled by the Group and thus whether they should be consolidated in the Group's consolidated financial statements; as well as whether all MRAs controlled by the Group have been consolidated;

(2) the occurrence, accuracy, valuation, rights and obligation, existence and completeness of the transactions and balances related to the Consolidated MRAs and their related tax impacts; and whether or not the prior year adjustment identified, together with the relevant amounts recorded in 2014, are complete and accurate in all material respects;

(3) the occurrence, accuracy and completeness of the reimbursement transactions including the Reimbursement Activities with the distributors and the offsetting of the Group's distribution costs against its revenue; and whether or not the prior year adjustment identified, together with the relevant amounts recorded in 2014, are complete and accurate in all material respects; and

(4) the occurrence, accuracy, valuation, rights and obligation and existence and completeness of the off-book transactions and balances and the related tax impacts; and whether or not the prior year adjustment identified, together with the relevant amounts recorded in 2014, are complete and accurate in all material respects.

Accordingly, we were not able to obtain sufficient appropriate audit evidence to determine whether any adjustments to the consolidated financial statements were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report."

MANAGEMENT RESPONSE

In order to facilitate a better understanding of the auditors' disclaimer opinion, management of the Company wishes to furnish further information to the auditor's disclaimer opinion together with the relevant measures taken and to be taken by management of the Company.

Background

Reference is made to the final results announcements of the Company dated 10 March 2014 (the "**2013 Results Announcement**") and this announcement (the "**2014 Results Announcement**") in relation to the final results of the Group for the years ended 31 December 2013 (the "**2013 Results**") and 31 December 2014 (the "**2014 Results**") respectively (together, the "**Results**"), and to the announcement of the Company dated 19 April 2015 (the "**Update Announcement**"). Terms used in this section shall have the same meanings as those defined in the Update Announcement unless the context herein requires otherwise.

The purpose of this section to clarify and/or supplement certain information contained in the 2013 Results Announcement and the 2014 Results Announcement.

The Company's auditor (the "**Auditor**") issued a disclaimer of opinion on the 2014 consolidated financial statements of the Group on 2 August 2015 (the "**Disclaimer of Opinion**").

Revised Sales Model and engagement of MRAs

As stated in the Update Announcement, with effect from the completion of certain acquisitions in 2011, the Group retained the Revised Sales Model for some of the Group's products in order to have an effective integration of their business with that of the Group. The Revised Sales Model was used alongside the Group's own sales model (the "**Original Sales Model**"). In the Original Sales Model, under which the Group first worked with distributors, the distributors directly undertook marketing and promotional services. Under the Revised Sales Model, the Group engaged MRAs to provide marketing and promotional services; the MRAs became responsible for settling their own expenses and the Group became responsible for settling the MRAs' fees, which were stipulated by the relevant market research services contracts (by which the MRAs were engaged). The selling prices of the Group's products to the distributors were then adjusted and increased accordingly after considering these marketing and promotion expenses under the Revised Sales Model.

Enquiry and internal investigation by the Audit Committee

In April 2014, the Company received an enquiry which, among others, mentioned the way that the Company had accounted for certain of the Group's sales revenue and distribution expenses (the "**Revenue and Distribution Expenses**") in the past might have been inappropriate (the "**Enquiry**").

In view of the matters mentioned in the Enquiry, the Company's management had discussions with the Audit Committee, following which the Audit Committee conducted the Investigation between June 2014 and May 2015. The scope of the Investigation was determined by the Audit Committee in consultation with the Auditor. The scope includes understanding how the Group's sales and marketing activities were conducted, reviewing the accounting treatment ("**Accounting Treatment**") adopted by the Company in the past in accounting for the Revenue and Distribution Expenses under the Revised Sales Model, assessing the impact (if any) to the Company's financial reporting and other potential implications.

The Company's management acted in compliance with the directions of the Audit Committee during the Investigation, and also fully co-operated with the Auditor. All the information was provided to the Auditor and in the Investigation to the extent that such information existed and was available; the Company also arranged interviews, especially with external parties, to the extent that such arrangements were possible.

Findings of the Investigation

The findings of the Investigation, concluded in around May 2015 and as memorialised below, are that:

i. Under the Original Sales Model, the Group would supply the products to the distributors, who would then engage independent sales representatives and supply the products to commercial logistics companies, before the products were distributed to hospitals;

ii. In the Revised Sales Model, the Group would engage the MRAs, some of which are now deemed controlled by the Group, to provide marketing and promotional services. The marketing and promotion expenses paid by the Group to the MRAs were eventually reimbursed, directly or indirectly, by the MRAs to the distributors or recipients designated by the distributors (the "**Reimbursement Activities**");

iii. The total amount reimbursed to the distributors or their designated parties pursuant to the Reimbursement Activities in each of the years 2011, 2012 and 2013 were, in all material respects, reconciled to the total amounts of marketing and promotion expenses paid to the MRAs and certain other expenses as recorded in the books and accounts of the Group. The marketing and promotion expenses and those other expenses were properly accrued and accounted for by the Group as of the end of those years;

iv. Interviews conducted with some distributors and commercial logistics companies, all of which are external parties to the Group, acknowledged that the Reimbursement Activities was attributable to the Revised Sales Model;

v. The Group did not have shareholdings in any MRAs; however certain MRAs which were considered third parties are deemed controlled by the Group and should be accounted for as structured entities of the Group;

vi. The Group had certain off-book transactions that were conducted through certain personal bank accounts, which were opened in the names of mostly employees of the Group and under the control of the respective subsidiaries. These off-book transactions were not previously accounted for and recorded in the Group's consolidated financial statements.

Accounting adjustments and changes on accounting treatment

Based on the findings of the Investigation which discovered that certain MRAs (in which the Group did not have shareholdings) were owned or part-owned by employees and/or ex-employees of the Group (i.e. the Consolidated MRAs) and/or that the Company had strong administrative influences over the Consolidated MRAs, which the Audit Committee were not aware of prior to its Investigation, the Audit Committee formed an opinion that the Consolidated MRAs are deemed to be controlled by the Group and should be consolidated into the Group's financial accounts (the "**Consolidation**"). The basis for the Audit Committee's opinion that certain of the MRAs are deemed to be controlled by the Group and should be consolidated into the Group's financial statements is set out on pages 56 and 57 of this announcement. The reasons are also set out in Note 2.1(i) on page 10 of this announcement. Since the Company did not have any shareholdings in the Consolidated MRAs, the Company's management previously took the view that these Consolidated MRAs did not need to be consolidated into the Company's accounts.

All Consolidated MRAs have been deregistered. The Group has ceased to, and does not currently, engage any Consolidated MRAs to distribute its products.

After considering the nature of the Reimbursement Activities as discovered in the Investigation, the Audit Committee also formed an opinion that the Accounting Treatment of the relevant Revenue and Distribution Expenses should be modified, such that the relevant marketing and promotional expenses should have been offset against revenues earned from the distributors since 2011 ("**Adjustment**").

The Company's management previously adopted an accounting treatment primarily based on the form of the relevant transactions as opposed to their substance. The Directors of the Company revisited the Company's management's accounting judgment on this. The Directors of the Company took a holistic view of the relevant transactions, and considered that their substance should, on balance, prevail over their form. Hence, the Directors of the Company are of the opinion that the relevant marketing and promotion expenses should be adjusted and accounted for as a reduction of the revenue earned from the distributors. The Directors were prompted by the findings of the Investigation (as described in this announcement) to revisit this.

As regards the use of personal bank accounts as discovered in the Investigation, in view of the business nature of the off-book transactions captured by such bank accounts and that the accounts were used and closely monitored by the subsidiaries of the Group, the Audit Committee also considers that the Company should account for and record these off-book transactions in the Group's consolidated financial statements. The Audit Committee further considers that the Company should close these personal bank accounts. As at the date of this announcement, all such personal bank accounts have ceased to be used by the Group and, to the extent that it is within the power of the Group, have been closed.

Further to the discussions among the Audit Committee, the Auditor and the Company's management, the board of directors of the Company (the "**Board of Directors**") agrees with the Audit Committee that it is appropriate to consolidate the Consolidated MRAs into the Group's financial statements, offset certain marketing and promotion expenses against revenues and account for the off-book transactions in the financial statements. The Directors also conclude that the prior year consolidated financial statements should be adjusted accordingly.

Documents requested by the Auditor were provided to the extent that they were in the possession of the Group, and all information gathered in the Investigation, including but not limited to the Group's internal documentation, such as records on sales, marketing and promotional expenses and reimbursements under the Revised Sales Model, and relevant bank statements have been provided to the Auditor. In light of the above matters, the Auditor has performed extended procedures in the audit of the 2014 Results. Details of the audit limitation have been discussed in the section headed "EXTRACT OF INDEPENDENT AUDITOR'S REPORT" above.

The Audit Committee was disappointed by the Disclaimer of Opinion given by the Auditors. The view of the Audit Committee on the Disclaimer of Opinion has been fully set out throughout the Management Response section of this announcement.

Revised Sales Model

Among other procedures, the Auditor requested third parties to furnish documents and information. In some occasions, the requests of the Auditor could not be fully met because the external parties either were reluctant to provide information, or did not respond to such requests at all. In other occasions, the relevant entities have been dissolved, or the requested documents or records do not exist.

It is mentioned in the Disclaimer of Opinion that the Auditor had not received satisfactory confirmation replies from the Group's distributors and other relevant parties to confirm the Reimbursement Activities and the related transactions.

On this, the Audit Committee noted 18 of the Group's distributors, 11 commercial logistics companies and 7 recipients of the reimbursements under the Revised Sales Model were interviewed in the Investigation, and all those interviewees acknowledged that the Reimbursement Activities were attributable to the Revised Sales Model.

Off-book business transactions conducted through employee's personal bank accounts

It is also as mentioned in the Disclaimer of Opinion that the Auditor could not obtain sufficient evidence to support that the personal bank accounts were held by individuals on behalf of the Group and that there were inadequate accounting records and insufficient evidence to assess whether there were other off-book transactions.

On this, the Audit Committee noted that during the Investigation, 33 personal bank accounts have been identified to be controlled by the Group. 20 personal bank accounts have been used for the Reimbursement Activities; another 13 personal bank accounts have been used for other business purposes of the Group from 2011 to 2014.

Bank statements of 27 bank accounts for the entire relevant period have been provided to the Auditor; partial information in relation to another 2 bank accounts has also been provided.

Further explanations regarding the prior year adjustments

Engagement of MRAs and the Reimbursement Activities under the Revised Sales Model

Before 2011, only the Original Sales Model was used throughout the Group. When the Group made certain acquisitions in 2011, professional accountants and legal counsel were engaged to advise the Group in those transactions and to conduct due diligence on the subject of the acquisitions (the "**Target**").

The Target used a sales model different from the Original Sales Model used by the Group; instead of relying on distributors, it directly engaged MRAs that were external parties to provide marketing and promotional services. Under this sales model, the Target would adopt a higher selling price, and the marketing and promotion expenses paid by the Target to the MRAs would be reimbursed to the distributors.

It was agreed by the parties to the acquisitions that the sales model and marketing channels of the Target should be retained until 2012 when the Group took over control of the sales channels.

Also, the government monitored the retail price based on the ex-factory prices and the National Development and Reform Committee undertook an inspection regarding the pricing structure of the Group in 2010 and 2011. Furthermore, the local government in the PRC was supportive of the Group to adopt the Revised Sales Model to increase the local fiscal revenue as the Meihekou Municipal government (梅河口市地方政府) would receive tax payments from the relevant MRAs and the higher selling price would generally result in higher amount of value-added tax being charged by the local tax authorities in the PRC. In return, local government provided preferential treatments and strong administration supports.

In light of such background, the Group adopted higher selling prices for some of the products. The adoption of such higher selling prices was disclosed in the 2012 annual report, as well as in many communications to investors, including analyst meetings and analyst communications.

It is the finding of the Investigation that the total amount reimbursed to the distributors or their designated parties pursuant to the Reimbursement Activities in each of the years 2011, 2012 and 2013 were, in all material respects, reconciled to the total amounts of marketing and promotion expenses paid to the MRAs and certain other expenses as recorded in the books and records of the Group. The marketing and promotion expenses and those other expenses were properly accrued and accounted for by the Group as of the end of those years. And these amounts are now off-set against revenue in the Adjustment.

With effect from around end of 2013, the Group gradually reverted to the Original Sales Model, with a view to (among others) increasing the competitiveness of the Group's products and managing operational risks based on the then prevailing market conditions (including the government's gradual relaxation on control over retail pricing of pharmaceutical products).

The Group has ceased all Reimbursement Activities and stopped using the Revised Sales Model in January 2015, except for the distribution of the Group's products in Fujian province of the PRC due to the requirements from the local government.

Due to requirements from the local government, the Group continues to adopt the Revised Sales Model for distribution of the Group's products in the Fujian province and such transactions would only involve the use of MRAs that are not controlled by the Group.

The Directors consider that there should be no additional tax liabilities for the Consolidated MRAs as the Consolidated MRAs paid the tax and made the relevant declaration in accordance with the requirements of the local tax authorities.

The Consolidated MRAs have been taxed in the local province for corporate income tax purposes on a deemed taxation basis. According to the Corporate Income Tax Law of the PRC, where an entity is unable to accurately compute and report the taxable income on an actual basis due to incomplete accounting records, inaccurate and unverifiable accounts or other reasons, the tax authorities are empowered to assess the taxable income by "actual revenue deemed profit" method, or by reference to the profit rate levels of entities in identical or similar industry. For a taxpayer who is able to correctly ascertain its revenue or extrapolate its total revenue by using reasonable methods, but is unable to correctly ascertain the relevant cost, the formula to be used is as follows: Taxable income = total revenue amount x deemed profit rate assessed by tax authorities.

Off-book business transactions conducted through employee's personal bank accounts

It is the finding of the Investigation that the personal bank accounts were used by the Group for the Reimbursement Activities and other business purposes which primarily included sales of distribution rights, payments of distribution rights, deposits from certain distributors, and payments of salary of and other expenses incurred by certain employees of the Group. The names of individuals holding the personal bank accounts were mostly those of employees of the Group.

The Group used these personal bank accounts for the Reimbursement Activities and other business purposes, because it was of lower costs to maintain such accounts, and they provided administrative convenience. The finance and commercial departments of certain subsidiaries of the Group were responsible for, and were involved in, monitoring these personal bank accounts.

During the Investigation, 33 personal bank accounts have been identified by the Company's management to be controlled by the Group, out of which bank statements or partial information of 29 bank accounts were provided for analysis purpose.

The Audit Committee formed no view as to the reasons given by the Group for using the personal bank accounts for Reimbursement Activities and other business purpose, but was of the view that the Company should close the personal accounts and should account for and record the off-book transactions in the Group's consolidated statements.

The Company's management confirms that, to the best of their knowledge and belief, apart from the 33 personal bank accounts identified in the Investigation, the Group does not control any other personal bank account that is being used for the Reimbursement Activities and other business purposes.

The Company's management also confirms that to the best of their knowledge and belief, the adjustments made for the off-book transactions are accurate.

Review conducted in the Investigation and measures adopted

Following the Investigation, the Company has considered the findings of the Investigation, the Reimbursement Activities, the sales models of the Group and the use of personal bank accounts by the Group.

The Company has adopted the following measures to address the findings in the Investigation and to further enhance its corporate governance:

i. all Consolidated MRAs have been deregistered as at the date of this announcement;

ii. all personal bank accounts controlled by the Group have ceased to be used by the Group and, to the extent that it is within the power of the Group, have been closed as at the date of this announcement;

iii. the Group has ceased all Reimbursement Activities and stopped using the Revised Sales Model in January 2015, except for distribution of the Group's products in the Fujian province of the PRC due to requirements of the local government (which would only involve the use of MRAs that are not controlled by the Group); and

iv. the Group has set up a special committee led by the Chairman of the Group to provide recommendations to management of the Company with a view to further enhancing the corporate governance of the Group.

ANNUAL GENERAL MEETING

The notice of the annual general meeting ("**AGM**") will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course.

DIVIDEND

The Board recommended the payment of a final cash dividend of RMB1.3 cents per share for the year ended 31 December 2014 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming AGM. Together with an interim cash dividend of RMB1.3 cents per share, the total cash dividend for the year ended 31 December 2014 will be RMB2.6 cents per share. The Company will publish further announcement in respect of the closure of register of members for the entitlement of final cash dividend in due course.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flow and the related notes thereto for the year ended 31 December 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2014 will be dispatched to Shareholders and available on the above websites in due course.

EVENTS AFTER THE REPORTING PERIOD

In June 2015, the Group entered into a share acquisition agreement with independent third parties for the acquisition of 70.7% equity interest in a hospital in Beijing for a consideration of RMB90,740,000. The Group is in the process of assessing the accounting treatment for such acquisition.

APPRECIATION

The Board would like to express its sincere appreciation to our Shareholders, customers and suppliers for their continued support of the Group. The Board also wishes to thank the Group's management and staff for achieving remarkable progress in the Group's business and their dedication and commitment for improving the Group's management.

CONTINUED SUSPENSION OF TRADING

Trading in the Company's shares on the Stock Exchange has been suspended since 9:00 a.m. on 27 March 2015. Trading in the shares of the Company on the Stock Exchange will remain suspended until further notice.

By order of the Board
Sihuan Pharmaceutical Holdings Group Ltd.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 2 August 2015

As at the date of this announcement, our executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer) and Mr. Meng Xianhui; our non-executive Directors are Dr. Zhang Jionglong and Mr. Homer Sun; and our independent non-executive Directors are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun.