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 2011

2011 BUSINESS HIGHLIGHTS

Sihuan Pharmaceutical Holdings Group Ltd. ("Sihuan Pharmaceutical" or the "Company") marked its eleventh year in operation in 2011. Despite a very challenging environment, Sihuan Pharmaceutical once again posted exceptional performance, highlighting the strength and adaptability of our business. For the past 10 years, the Company achieved fast growth and made progress on solidifying our position as a consistent leader in the Chinese pharmaceutical industry. Over the past year we have delivered strong financial performance realizing strong revenue and net profit performance for our shareholders, and continued to optimize our product portfolio and built on our position as the largest cardio-cerebral vascular ("CCV") franchise in China's prescription drug market. It has also grown into the country's ninth biggest pharmaceutical company in terms of revenue. Although Sihuan Pharmaceutical's performance during this past year has been commendable, it is important to note that the Chinese pharmaceutical industry overall is still navigating through a number of challenges. However, Sihuan Pharmaceutical has managed to identify and leverage opportunities for further growth. Regulatory pressures have prompted industry consolidation, and this has allowed Sihuan Pharmaceutical to seek valuable merger and acquisition ("M&A") opportunities, and receive government support for its research and development ("R&D") innovations.

The Company continues to be active in pursuing M&A in order to drive diversification and growth, as evidenced by the successful identification, acquisition, and integration of high potential assets. Leveraging the Company's highly efficient management and sales systems, Sihuan Pharmaceutical demonstrated its ability to integrate the financial, production and sales and marketing system of its newly acquired businesses smoothly and effectively into its existing business. The successful integration generated impressive synergies that will drive sustainable future growth. Sales of its newly acquired products recorded significant growth, exceeding one-third of the Company's total sales.

The Company has had a year of breakthroughs in terms of R&D. At present, the Company has 10 innovative patented drugs at various stages of development, including Category I innovative drug Apapenem (艾帕培南) which has been approved for the clinical trials, Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category I innovative drug, which will soon complete Phase II of its clinical trials, and Tylerdipine Hydrochloride (鹽酸泰樂地平), another Category I innovative drug, which has completed pre-clinical studies and its registration application to conduct clinical trials was accepted by the State Food and Drug Administration ("SFDA"). The Company's generic drugs team has received approval for the clinical trial of Cinepazide Mesilate (甲磺酸桂哌齊特), an exclusive Category IV new drug, which has completed Phase I clinical trials and will soon commence Phase II clinical trials. In addition, the team has more than five cases pending approval for production licenses, including Roxatidine Injection (羅沙替丁), a first-to-market generic drug, and Nalmefene Hydrochloride (鹽酸納美芬). In addition, we have also focused on effectively developing our proven sales and marketing capabilities. Our academic promotional activities marked Sihuan Pharmaceutical as an industry leader, and as a result our existing products have reached additional clinical departments in hospitals already covered in our distribution network and our newly acquired products have reached around 4,000 hospitals. All of these developments help us strengthen our R&D capabilities, improve our sales and marketing, and drive operational improvement.

Going forward, we will focus on optimizing, diversifying and expanding the business. Our plan for growth emphasizes optimizing our portfolio mix and enhancing our highly effective sales and marketing strategies, diversifying our product offerings through M&A and R&D activities, and expanding our market share as we seek out new areas for growth. The Company believes that this growth strategy, our position as a market leader and our available resources enable us to capitalize on current and future market opportunities, expand revenue, and deliver sustainable long-term growth.

2011 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 116.2% to RMB2,242.1 million in 2011 from RMB1,036.9 million.

- Gross profit margin improved from 71.8% in 2010 to 76.5% in 2011.

- Profit attributable to owners of the Company increased by 57.8% to RMB824.0 million in 2011.

- Basic earnings per share increased by approximately 22.0% over 2010 to approximately RMB15.90 cents.

- A final dividend of RMB2.5 cents per share and a second special dividend of RMB7.2 cents per share were recommended by the Board and are subject to the approval of the shareholders at the annual general meeting of the Company to be held on 1 June 2012.

	Year ended 31 December		
	2011	2010	Change
	RMB '000	*RMB '000*	*%*
Key Income Statement Items			
Revenue	**2,242,063**	1,036,881	116.2%
Gross profit	**1,714,464**	744,743	130.2%
Operating profit	**990,348**	613,313	61.5%
Profit attributable to owners of the Company	**824,048**	522,065	57.8%
Key Financial Ratios			
Gross profit margin	**76.5%**	71.8%	
Net profit margin	**36.8%**	50.3%	
Earnings per share – Basic (RMB cents)	**15.90**	13.03	
Receivable Turnover (days)	**24**	2	
Inventory Turnover (days)	**38**	59	
Proposed final dividend per share (RMB cents)	**2.5**	—	
Proposed second special dividend per share (RMB cents)	**7.2**	—	

The board (the "Board") of directors (the "Directors") of 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 2011 together with the comparative figures for the previous year as follows:

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**419,258**	253,153
Investment properties		**6,834**	—
Intangible assets	4	**3,080,147**	153,469
Land use rights		**88,912**	17,714
Held-to-maturity financial assets		**17,917**	36,252
Deferred income tax assets		**69,483**	41,020
Other non-current assets		**97,668**	236,199
		3,780,219	737,807
Current assets			
Inventories		**57,653**	53,346
Trade and other receivables	5	**718,795**	259,920
Available-for-sale financial assets	6	**780,135**	—
Held-to-maturity financial assets		**18,318**	—
Cash and cash equivalents		**3,153,154**	5,851,379
		4,728,055	6,164,645
Assets of disposal group classified as held for sale		**345,824**	—
		5,073,879	6,164,645
Total assets		**8,854,098**	6,902,452
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	7	**44,419**	44,526
Share premium	7	**5,573,951**	5,608,947
Other reserves		**153,485**	111,876
Retained earnings			
— Proposed final and special dividends	15	**501,978**	—
— Others		**671,701**	891,582
		6,945,534	6,656,931
Non-controlling interests		**48,409**	2,598
Total equity		**6,993,943**	6,659,529

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**113,133**	9,526
Borrowings	8	**5,880**	—
		119,013	9,526
Current liabilities			
Trade and other payables	9	**1,540,292**	138,907
Current income tax liabilities		**109,039**	94,490
		1,649,331	233,397
Liabilities of disposal group classified as held for sale		**91,811**	—
		1,741,142	233,397
Total liabilities		**1,860,155**	242,923
Total equity and liabilities		**8,854,098**	6,902,452
Net current assets		**3,332,737**	5,931,248
Total assets less current liabilities		**7,112,956**	6,669,055

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December **2011** *RMB'000*	2010 *RMB'000*
Revenue	10	**2,242,063**	1,036,881
Cost of sales	11	**(527,599)**	(292,138)
Gross profit		**1,714,464**	744,743
Other gains – net	10	**108,542**	54,052
Distribution costs	11	**(631,568)**	(56,654)
Administrative expenses	11	**(201,090)**	(128,828)
Operating profit		**990,348**	613,313
Finance income	12	**56,367**	23,629
Finance costs	12	**(1,859)**	(1,859)
Finance income – net		**54,508**	21,770
Profit before income tax		**1,044,856**	635,083
Income tax expense	13	**(244,823)**	(128,175)
Profit for the year		**800,033**	506,908
Profit attributable to:			
Owners of the Company		**824,048**	522,065
Non-controlling interests		**(24,015)**	(15,157)
		800,033	506,908
Earnings per share attributable to owners of the Company during the year			
— Basic and diluted earnings per share *(RMB cents)*	14	**15.90**	13.03
Other comprehensive income:			
Change in value of available-for-sale financial assets		**1,635**	—
Total comprehensive income for the year		**801,668**	506,908
Total comprehensive income attributable to:			
Owners of the Company		**825,683**	522,065
Non-controlling interests		**(24,015)**	(15,157)
		801,668	506,908
Dividends	15	**227,701**	173,939

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 2010	**69,262**	**182,909**	**109,585**	**545,747**	**907,503**	**16,684**	**924,187**
Comprehensive income							
Profit for the year	—	—	—	522,065	522,065	(15,157)	506,908
Total comprehensive income	**69,262**	**182,909**	**109,585**	**1,067,812**	**1,429,568**	**1,527**	**1,431,095**
Total contribution by and distributions to owners of the Company recognized directly in equity							
Conversion of shares	(65,212)	65,212	—	—	—	—	—
Capitalization of share premium	28,262	(28,262)	—	—	—	—	—
Issue of new ordinary shares	12,214	5,606,259	—	—	5,618,473	—	5,618,473
Listing expenses	—	(217,171)	—	—	(217,171)	—	(217,171)
Dividends	—	—	—	(173,939)	(173,939)	—	(173,939)
Transfer to PRC statuary reserve fund	—	—	2,291	(2,291)	—	—	—
Total contributions by and distributions to owners of the Company	**(24,736)**	**5,426,038**	**2,291**	**(176,230)**	**5,227,363**	**—**	**5,227,363**
Non-controlling interests arising on business combination	—	—	—	—	—	1,071	1,071
Total transaction with owners	**(24,736)**	**5,426,038**	**2,291**	**(176,230)**	**5,227,363**	**1,071**	**5,228,434**
Balance as at 31 December 2010	**44,526**	**5,608,947**	**111,876**	**891,582**	**6,656,931**	**2,598**	**6,659,529**
Comprehensive income							
Profit for the year	—	—	—	824,048	824,048	(24,015)	800,033
Other comprehensive income							
Available-for-sale financial assets	—	—	1,635	—	1,635	—	1,635
Total other comprehensive income,net of tax	—	—	1,635	—	1,635	—	1,635
Total comprehensive income	**—**	**—**	**1,635**	**824,048**	**825,683**	**(24,015)**	**801,668**

	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*
Total contribution by and distributions to owners of the Company recognized directly in equity							
Contribution from non-controlling interest	—	—	—	—	—	300	300
Repurchase and cancellation of shares	(107)	(34,996)	—	—	(35,103)	—	(35,103)
Dividends	—	—	—	(501,977)	(501,977)	—	(501,977)
Transfer to PRC statuary reserve fund	—	—	40,974	(40,974)	—	—	—
Total contributions by and distributions to owners of the Company	**(107)**	**(34,996)**	**40,974**	**(542,951)**	**(537,080)**	**300**	**(536,780)**
Non-controlling interests arising on business combination	—	—	—	—	—	20,866	20,866
Non-controlling interest arising on partial disposal of a subsidiary	—	—	—	—	—	48,660	48,660
Disposal of a subsidiary	—	—	(1,000)	1,000	—	—	—
Total transaction with owners	**(107)**	**(34,996)**	**39,974**	**(541,951)**	**(537,080)**	**69,826**	**(467,254)**
Balance as at 31 December 2011	**44,419**	**5,573,951**	**153,485**	**1,173,679**	**6,945,534**	**48,409**	**6,993,943**

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**927,960**	516,000
Income tax paid	**(215,026)**	(135,899)
Net cash generated from operating activities	**712,934**	380,101
Cash flows from investing activities		
Proceeds from disposal of an associated company	**—**	32,000
Acquisition of subsidiaries, net of cash acquired	**(1,874,247)**	19
Proceeds from partial disposal of a subsidiary	**100,000**	—
Proceeds from disposal of property, plant and equipment	**—**	54
Purchase of available-for-sale financial assets	**(778,500)**	—
Purchase of held-to-maturity financial assets	**—**	(36,254)
Purchase of property, plant and equipment	**(114,526)**	(107,774)
Purchase of intangible assets	**(97,467)**	(35,078)
Payment for land use rights	**(49,245)**	—
Prepayment for acquisition of land use rights	**(97,668)**	—
Prepayment for acquisition of subsidiaries	**—**	(236,199)
Disposal of a subsidiary, net of cash disposed	**(4,887)**	—
Interest received	**53,828**	19,550
Net cash used in investing activities	**(2,862,712)**	(363,682)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net of listing expenses	**—**	5,396,040
Repurchase and cancellation of shares	**(35,103)**	—
Repayment of borrowings	**(17,079)**	—
Proceeds from borrowings	**5,880**	—
Dividends paid	**(501,977)**	(173,939)
Interest paid	**(168)**	—
Net cash (used in)/generated from financing activities	**(548,447)**	5,222,101
Net (decrease)/increase in cash and cash equivalents	**(2,698,225)**	5,238,520
Cash and cash equivalents at beginning of year	**5,851,379**	612,859
Cash and cash equivalents at end of year	**3,153,154**	5,851,379

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 Group are manufacturing and sale of pharmaceutical products in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is Plenty Gold Enterprises Limited ("Plenty Gold"), a limited liability company incorporated under the laws of the British Virgin Islands on 10 March 2004.

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 26th & 27th Floor, Sky City International Building, No.85, Binhai Avenue, Haikou, Hainan, 570105, PRC.

The Company has its primary listing on the Stock Exchange on 28 October 2010.

These financial statements are presented in units of Renminbi ("RMB") thousand Yuan, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 19 March 2012.

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 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.

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011.

- International Accounting Standards ("IAS") 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

    - *The name of the government and the nature of their relationship;*
    - *The nature and amount of any individually significant transactions; and*
    - *The extent of any collectively-significant transactions qualitatively or quantitatively.*

    It also clarifies and simplifies the definition of a related party.
    This revised standard does not have a material impact on the Group.

- Amendment to IAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This amendment is currently not relevant to the Group as it has not made any rights issue.

- Amendment to IFRIC — Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This amendment is currently not relevant to the Group as it does not have such minimum funding requirement.

- IFRIC — Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This interpretation is currently not relevant to the Group as it currently has no extinguishment of financial liabilities with equity instruments.

3. SEGMENT INFORMATION

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

The Board considers the business from product perspective. The Group is engaged in only one business segment, the manufacturing and sale of pharmaceutical products in the PRC.

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 2010						
Cost	49,107	28,000	75,594	145,768	2,253	300,722
Accumulated amortisation	—	(12,600)	(45,773)	—	(892)	(59,265)
Impairment	(35,117)	—	(1,063)	(67,816)	—	(103,996)
Net book amount	13,990	15,400	28,758	77,952	1,361	137,461
Year ended 31 December 2010						
Opening net book amount	13,990	15,400	28,758	77,952	1,361	137,461
Acquisition of subsidiaries	1,943	—	—	—	—	1,943
Additions	—	—	10,500	23,938	640	35,078
Transfer	—	—	3,000	(3,000)	—	—
Impairment charge	—	—	—	(2,571)	—	(2,571)
Amortisation charge	—	(5,600)	(12,568)	—	(274)	(18,442)
Closing net book amount	15,933	9,800	29,690	96,319	1,727	153,469
At 31 December 2010						
Cost	51,050	28,000	89,094	166,706	2,893	337,743
Accumulated amortisation	—	(18,200)	(58,341)	—	(1,166)	(77,707)
Impairment	(35,117)	—	(1,063)	(70,387)	—	(106,567)
Net book amount	15,933	9,800	29,690	96,319	1,727	153,469
Year ended 31 December 2011						
Opening net book amount	15,933	9,800	29,690	96,319	1,727	153,469
Acquisition of subsidiaries	2,695,305	26,941	546,140	—	19,225	3,287,611
Additions	—	—	74,492	22,919	56	97,467
Disposal of a subsidiary	(1,860)	—	—	—	—	(1,860)
Partial disposal of a subsidiary	(98,590)	—	—	—	—	(98,590)
Transfer	—	—	5,000	(5,000)	—	—
Written Off	—	—	—	(4,551)	—	(4,551)
Tranfer to disposal group classified as held for sale	—	—	(291,857)	—	—	(291,857)
Impairment charge	(1,943)	—	—	(39)	—	(1,982)
Amortisation charge	—	(9,170)	(47,600)	—	(2,790)	(59,560)
Closing net book amount	2,608,845	27,571	315,865	109,648	18,218	3,080,147
At 31 December 2011						
Cost	2,645,905	54,941	425,815	178,804	22,173	3,327,638
Accumulated amortisation	—	(27,370)	(108,887)	—	(3,955)	(140,212)
Impairment	(37,060)	—	(1,063)	(69,156)	—	(107,279)
Net book amount	2,608,845	27,571	315,865	109,648	18,218	3,080,147

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

5. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables — third parties	**387,893**	27,763
Less: provision for impairment of trade receivables	**—**	—
Trade receivables — net	**387,893**	27,763
Prepayments to suppliers	**73,694**	105,880
Deposits and other receivables	**114,958**	126,277
Amount receivable from partial disposal of a subsidiary	**142,250**	—
	718,795	259,920

The Group's credit terms granted to customers ranged from one month to one year. Trade receivables that are aged less than one year are not considered impaired. The ageing analysis of trade receivables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**339,096**	27,438
3 to 6 months	**9,293**	122
6 months to 1 year	**39,248**	182
More than 1 year	**256**	21
	387,893	27,763

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amount represents short-term investments placed in certain PRC state-owned banks with maturity within 3 months and non-determinable return rate. These investments are all denominated in RMB.

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 2010 (US$0.02 per share)	600,000	470,000	69,262	182,909	252,171
Conversion of shares (a)	—	—	(65,212)	65,212	—
Increase in authorised ordinary shares (b)	9,400,000	—	—	—	—
Capitalisation of share premium (c)	—	3,280,000	28,262	(28,262)	—
Issuance of new ordinary shares (d)	—	1,437,500	12,214	5,606,259	5,618,473
Listing expenses (e)	—	—	—	(217,171)	(217,171)
As at 31 December 2010 (HK$0.01 per share)	10,000,000	5,187,500	44,526	5,608,947	5,653,473
As at 1 January 2011 (HK$0.01 per share)	10,000,000	5,187,500	44,526	5,608,947	5,653,473
Repurchase and cancellation of shares (f)	—	(12,476)	(107)	(34,996)	(35,103)
As at 31 December 2011 (HK$0.01 per share)	10,000,000	5,175,024	44,419	5,573,951	5,618,370

(a) The number of authorised ordinary shares of the Company as at 1 January 2009 and 31 December 2009 was 600,000,000 shares with a par value of US$0.02 each, of which 470,000,000 ordinary shares were issued and fully paid.

On 7 October 2010, shareholders' resolutions were passed to approve the conversion of the par value per share of authorised share capital from US$0.02 to HK$0.01. The 470,000,000 fully paid ordinary shares at par value of US$0.02 each was converted into 470,000,000 fully paid ordinary shares at par value of HK$0.01 each and the difference of the paid-in capital of RMB65,212,000 following the conversion was credited to share premium.

(b) Pursuant to the written resolution of shareholders passed on 8 October 2010, the authorised share capital of the Company was increased from HK$6,000,000 to HK$100,000,000 by the creation of 9,400,000,000 new ordinary shares.

(c) Pursuant to the written resolution of shareholders of the Company passed on 8 October 2010, 3,280,000,000 ordinary shares of the Company were issued at par value as fully paid in proportion to their then existing shareholdings in the Company. The amount was paid up in full by applying an amount of RMB28,262,000 standing to the credit of the share premium account of the Company.

(d) On 28 October 2010 and 29 October 2010, upon its listing on the Main Board of the Stock Exchange and related over-allotment option, the Company issued 1,250,000,000 new ordinary shares and 187,500,000 new ordinary shares at par value of HK$0.01 per share for cash consideration of HK$4.60 each respectively, and raised gross proceeds of approximately HK$6,612,500,000 (equivalent to RMB5,618,473,000).

(e) Listing expenses mainly included underwriting commission, lawyer's fees, reporting accountant's fee and other related costs. Incremental costs that were directly attributable to the issuance of the new ordinary shares amounting to RMB217,171,000 were treated as a deduction from share premium. Other listing expenses which were not directly attributable to the issuance of the new ordinary shares amounting to RMB14,283,000 were recognised as expenses in the statement of comprehensive income.

(f) In July 2011, the Company repurchased its ordinary shares totalling 12,476,000 shares at a range of HK$3.22 to HK$3.45 per share, with an aggregate consideration of HK$42,290,000 (approximately RMB35,103,000), including the relevant transaction expense of HK$151,000 (approximately RMB125,000). The difference between the par value of the ordinary shares and the aforesaid consideration, totally RMB34,996,000, is deducted against the share premium account of the Company. The repurchased shares were cancelled in July 2011 accordingly.

8. BORROWINGS

These borrowings as at 31 December 2011 represent the borrowings from Langfang Sihuan Gao Bo Pharmaceutical Co., Ltd. ("Langfang Sihuan")'s non-controlling shareholders. The borrowings mature until 2015 and bear average interest rate of 6.9% annually.

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Beijing Gao Bo Medicinal Chemistry Technology Co., Ltd.	**4,080**	—
Mr. Wang Fuping	**1,200**	—
Mr. Xiong Chuanhui	**600**	—
	5,880	—

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade payables	**29,223**	31,261
Advances from customers	**66,701**	36,793
Value added tax payables	**30,253**	2,310
Accrued performance bonus to directors	**21,993**	24,350
Payables of listing expenses	**—**	9,021
Amount payable due to the acquisition of subsidiaries	**1,200,000**	—
Deferred gain on partial disposal of a subsidiary	**95,000**	—
Other payables	**97,122**	35,172
	1,540,292	138,907

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within 6 months	**25,574**	29,315
6 months to 1 year	**1,252**	154
More than 1 year	**2,397**	1,792
	29,223	31,261

10. REVENUE AND OTHER GAINS — NET

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Revenue:		
Sales of pharmaceutical products	**2,242,063**	1,036,881
Other gains – net:		
Processing fee income	**1,374**	2,391
Government grants	**115,960**	50,970
Impairment of intangible assets *(Note 4)*	**(1,982)**	(2,571)
Loss on disposal of a subsidiary	**(1,829)**	—
Write-off of intangible assets *(Note 4)*	**(4,551)**	—
Gain on held-to-maturity financial assets	**822**	95
Others	**(1,252)**	3,167
	108,542	54,052

11. EXPENSES BY NATURE

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Research and development costs		
Research expenses	**34,371**	17,960
Amortisation of deferred development costs *(Note 4)*	**47,600**	12,568
	81,971	30,528
Marketing expenses	**557,126**	6,195
Raw materials used	**406,070**	265,604
Employee benefit expenses	**95,578**	65,317
Depreciation of property, plant and equipment	**32,806**	16,473
Office expenses	**31,359**	20,104
Professional services expense	**25,872**	8,062
Travelling expenses	**20,288**	16,269
Transportation expenses	**15,399**	7,553
Amortisation of intangible assets excluding the amortisation of deferred development costs *(Note 4)*	**11,960**	5,874
Changes in inventories of finished goods and work in progress	**11,873**	(4,977)
Entertainment expenses	**4,317**	3,802
Operating lease payments	**3,805**	2,366
Auditors' remuneration	**3,270**	2,100
Amortisation of land use rights	**2,516**	1,129
Depreciation of investment property	**430**	—
Listing expenses *(Note 7(e))*	**—**	14,283
Others	**55,617**	16,938
Total cost of sales, distribution costs and administrative expenses	**1,360,257**	477,620

12. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Exchange loss	**(1,110)**	(1,488)
Bank charges	**(175)**	(371)
Interest expenses	**(574)**	—
Finance costs	**(1,859)**	(1,859)
Interest income	**56,367**	23,629
Finance income	**56,367**	23,629
Net finance income	**54,508**	21,770

13. INCOME TAX EXPENSE

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current tax	**228,770**	92,986
Deferred tax	**16,053**	16,655
	244,823	109,641
Under-provision	**—**	18,534
Income tax expense	**244,823**	128,175

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2011 (2010: 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	
	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**1,044,856**	635,083
Tax calculated at applicable tax rates for respective subsidiaries of the Group	**260,416**	149,056
Tax effects of:		
— Additional deductible allowance for research and development expenses	**—**	(1,200)
— Withholding tax on the earnings expected to be remitted by subsidiaries	**54,600**	2,000
— Effect of tax reduction and exemption	**(94,238)**	(51,020)
— Expenses not deductible for tax purposes	**4,083**	1,271
— Tax losses for which no deferred income tax asset was recognised	**19,962**	9,534
Tax charge	**244,823**	109,641
Under-provision	**—**	18,534
Income tax expense	**244,823**	128,175

14. 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 issuance during the year including the ordinary shares repurchased by the Company in July 2011. The ordinary shares of 3,280,000,000 issued on 8 October 2010 related to the capitalisation issue as disclosed in Note 7 (c) were deemed to have been issued at the beginning of the earliest period presented in the financial statements.

	Year ended 31 December	
	2011	2010
Profit attributable to owners of the Company *(RMB'000)*	**824,048**	522,065
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	**5,181,797**	4,005,479
Basic earnings per share *(RMB cents)*	**15.90**	13.03

(b) Diluted

There is no dilution to earnings per share during 2011 and 2010 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

15. DIVIDENDS

The dividends paid in 2011 and 2010 were RMB501,977,000 and RMB173,939,000 respectively. Final dividend and second special dividend in respect of the year ended 31 December 2011 of RMB129,376,000 and RMB372,602,000 respectively are to be proposed at the annual general meeting on 1 June 2012. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid of RMB37.0 cents per ordinary share before the initial public offering in October 2010	**—**	173,939
Interim dividend paid of RMB1.9 cents per ordinary share	**98,325**	—
Special dividend paid of RMB7.8 cents per ordinary share	**403,652**	—
	501,977	173,939
Proposed final dividend of RMB2.5 cents per ordinary share	**129,376**	—
Proposed second special dividend of RMB7.2 cents per ordinary share	**372,602**	—
	501,978	—

16. 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	
	2011	2010
	RMB'000	*RMB'000*
Property, plant and equipment	**13,785**	3,212
Intangible assets — product development in progress	**21,118**	51,594
Acquisition of subsidiaries	**—**	2,200,000
	34,903	2,254,806

(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	
	2011	2010
	RMB'000	*RMB'000*
No later than 1 year	**1,413**	664
Later than 1 year and no later than 2 years	**821**	320
Later than 2 years	**780**	293
	3,014	1,277

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2011, the domestic prescription drug market overall experienced growth of 24.7%, mainly driven by the increasing demand for drugs and health care services and higher levels of government investment in the health care and related sectors. The CCV prescription drug market in particular posted stable growth of 28.2%, presenting a niche opportunity for the Company, the largest CCV drug franchise in China's prescription drug market by market share.

Leveraging the robust sales growth of CCV products, a more diverse and optimized product portfolio, and the Company's R&D capabilities, Sihuan Pharmaceutical achieved its internal targets and a 2011 growth rate that outperformed the industry. Specifically, for the year ended 31 December 2011, the Company's revenue grew by 116.2% to RMB2,242.1 million. Net profit attributable to the Company's equity owners grew by 57.8% to RMB824.0 million.

Importantly, all of this was achieved during what was a relatively challenging year for the Chinese pharmaceutical industry from an operational perspective. The operating environment has been impacted by uncertainties relating to various policies, including the another round of revisions of drug prices according to a new government pricing policy, intensifying market competition caused by the further reduction of drug prices upon the commencement of provincial drug tenders, restrictions on the clinical use of certain anti-infective drugs, as well as the implementation of new Good Manufacturing Practice ("GMP") standards. With this as a backdrop, the fact that Sihuan Pharmaceutical posted such remarkable results highlights its strong product portfolio and operational capabilities.

(i) Cardio-cerebral vascular products ("CCV products")

In 2011, China's CCV market, one of the fastest growing drug sectors in the country, experienced 28.2% growth, outpacing the overall prescription drug market's growth rate of 24.7%. During the same period, the Company maintained its industry-leading position in the Chinese CCV prescription drug market, leveraging its broadening product portfolio and expanded distribution network. According to IMS Heath Incorporated ("IMS"), the market share of the Company's CCV drugs for hospital purchase increased to 9.4% in 2011 from 7.5% in 2010.

Sales of key CCV products:

	For the year ended 31 December			
Product	**2011**	2010	**Change**	**Product Characteristics**
	(RMB'000)	*(RMB'000)*		
Existing products				
Kelinao (Cinepazide Maleate Injection) (80 mg)	**529,430**	456,102	16.1%	For improving the ischemic tissue blood supply and protecting the ischemic tissue. Widely used in the treatments of cardiovascular and cerebrovascular and peripheral vascular diseases.
Anjieli (Cinepazide Maleate Injection) (320 mg)	**202,187**	113,878	77.5%	
GM1 (Monosialotetrahexosylganglioside Sodium Injection)	**143,627**	66,170	117.1%	For neural tissue cells protection and repairing agents; for treatment of traumatic brain injury, cerebral vascular accidents, other central neural system injuries, and Parkinson's disease.
Chuanqing (Ligustrazine hydrochloride for injection)	**82,709**	82,917	-0.2%	Widely used in ischemic cerebrovascular disease, coronary heart disease, cerebral embolism, vasculitis, vascular dementia.
Qu'Ao (Cerebroprotein hydrolysate)	**68,227**	59,059	15.5%	For promoting neural cell metabolism and differentiation and synthesis of brain protein. Widely used in brain cell dysfunction caused by cerebrovascular disease, traumatic brain injury, Alzheimer's disease.
Qingtong (Edaravone Injection)	**45,713**	35,786	27.7%	Oxygen free radical scavenger, widely used in cardiovascular and cerebrovascular diseases, and in peripheral vascular disease (PDA) for people with diabetes.
Newly acquired products				
Oudimei (Cerebroside-Kinin Injection)	**654,859**	N/A*	N/A*	For promoting metabolism of the heart, brain tissues, and neurons of the brain tissue regeneration process, improving cerebral metabolic functions; clinically used for the treatment of dysfunction caused by cardiac and brain diseases.
Aoliankang (Compound of aceglutamide and safflower extract/ Guhong Injection)	**93,870**	N/A*	N/A*	For the treatment of cerebrovascular diseases such as cerebral insufficiency, cerebral embolism and cerebral hemorrhage recovery period; dysfunction caused by the awareness of liver disease, neurological surgery; mental deterioration, and memory impairment.

	For the year ended 31 December			
Product	**2011**	2010	**Change**	**Product Characteristics**
	(RMB'000)	*(RMB'000)*		
Yuanzhijiu (Troxerutin and Cerebroprptein Hydrolysate Injection)	**83,236**	N/A*	N/A*	For the treatment of cardiocerebro vascular diseases.
Yimaining (Alprostadil lipid emulsion injection)	**62,410**	3,678	1,596.6%	Used for targeting microcirculation and protecting the organs and tissue cells. Widely used in chronic arteriosclerosis obliterans, unstable angina, myocardial infarction, coronary artery bypass surgery, cerebral infarction, ischemic spinal cord injury, diabetes, peripheral neuropathy, diabetes and kidney disease.

Sales of the Company's CCV products increased 141.1% to RMB2,019.7 million during 2011, accounting for approximately 90.1% of the Company's total revenue. The growth is mainly attributable to the steady sales growth of the Company's existing products and the rapid growth of its newly acquired products. Importantly, the Company continued to diversify its product mix, ensuring that revenue contribution is broad-based and balanced.

The Company's existing products, including Kelinao, Anjieli, Qu'Ao and Qingtong, maintained steady sales growth as a result of the Company furthering its geographical penetration, expansion of its sales and marketing team, and strengthening awareness of its brand. More specifically:

— Sales of Kelinao and Anjieli grew by 16.1% and 77.5% to RMB529.4 million and RMB202.2 million respectively;

— Qu'Ao is the second best selling cerebroprotein hydrolysate drug in China with sales up by 15.5% to RMB68.2 million. Its market share increased to 26.4% in 2011 from 21.9% in 2010;

— Despite the reduction in the price of the drug, the Company expanded Chuanqing's market share from 55.1% in 2010 to 60.3% in 2011. Its sales stood at RMB82.7 million during the year versus RMB82.9 million in 2010; and

— GM1 maintained rapid year-on-year growth with its sales doubling to RMB143.6 million. According to IMS, Sihuan's GM1, with a market share of 16.3%, is the third best selling product of its kind in China.

Capitalizing on the Company's strong capabilities in market development, its newly acquired products achieved rapid growth, with aggregate sales of these products exceeding one third of the Company's total revenue. Oudimei, Yuanzhijiu and Yimaining recorded strong sales performance, and Oudimei has joined Kelinao and Anjieli to become another flagship product. The Company's new product, Aoliankang (Guhong Injection), which is distributed by the Company, also contributed sales of more than RMB93.9 million.

(ii) Non-cardio-cerebral vascular products ("Non-CCV products")

With an aim to achieve a more balanced and diversified product portfolio and to access opportunities across China's broader prescription drug market, the Company also offers non-CCV drugs to treat targeted therapeutic areas, including but not limited to the central nervous system ("CNS"), the respiratory system and metabolism, as well as anti-infective drugs.

Sales of key Non-CCV products:

		For the year ended 31 December			
	Product	**2011**	2010	**Change**	**Product Characteristics**
		(RMB'000)	*(RMB'000)*		
Respiratory drug(s)	Bi'Ao (Ambroxol Hydrochloride)	**40,955**	38,595	6.1%	Clinical first-line expectorant, phlegm drugs. Used for the expectorant treatment of acute, chronic respiratory diseases. It is also a regular medication taken to avoid lung infections after surgery.

		For the year ended 31 December			
	Product	**2011**	2010	**Change**	**Product Characteristics**
		(RMB'000)	*(RMB'000)*		
	Zhuo'Ao (Ambroxol Hydrochloride)	**9,115**	4,957	83.9%	Clinical first-line expectorant, phlegm drugs. Used for the expectorant treatment of acute, chronic respiratory diseases. It is also a regular medication taken to avoid lung infections after surgery.
Anti-intective drug(s)	Pojia (Sulbenicillin Sodium)	**36,197**	19,684	83.9%	Broad-spectrum penicillin, with a broad antagonistic spectrum, strong antibacterial activity, a low-level of drug resistance, and is safe and well-tolerated.
Metabolism drug(s)	Luoanming (Amino Acid Injection)	**35,351**	21,992	60.7%	Used for hypoalbuminemia, inadequate protein intake or malabsorption, and protein synthesis obstacles.
Central nervous system drug(s)	Ren'Ao (Oxcarbazepine)	**8,149**	4,941	64.9%	A new generation of antiepileptic drug, with a broad spectrum, high effectiveness and safety. It can be used as an alternative to carbamazepine.

Non-CCV products also recorded satisfactory performance in 2011, which is mainly attributable to stronger sales and marketing capabilities and successful tendering. Sales of these products increased 7.6% to RMB212.1 million, representing approximately 9.5% of total revenue.

Among the Company's non-CCV products, anti-infective drugs have seen decreases in sales. This is mainly due to government regulations on the clinical usage of anti-infective drugs and general changes in the market. However, the Company will continue to invest and develop other therapeutic areas in order to optimize its product mix, expand the business and enrich its product resources to sustain long-term future growth.

In 2011, the Company stepped up its efforts to promote CNS drugs. Sales of its key product, Ren'Ao, which is used primarily in the treatment of epilepsy, recorded growth of 64.9% to reach RMB8.1 million. The Company's respiratory system drugs, Zhuo'Ao and Bi'Ao, recorded aggregate sales of RMB50.1 million in 2011, representing 15.0% year-on-year growth. Despite restrictions on the clinical use of certain anti-infective drugs, coupled with the reduction in retail prices, sales of Pojia increased by 83.9% to RMB36.2 million. Sales of Luoanming also climbed by 60.7% to RMB35.4 million.

(iii) Sales and Marketing

The Company's remarkable sales performance in 2011 and its sustained growth are largely attributable to its unique and proven sales and marketing model which is supported by an extensive nationwide distribution network. To meet the growing market demand driven by its diversifying product portfolio, the Company has devoted considerable efforts to further strengthening its in-house sales and marketing team and expanding its sales network. In 2011, the Company added over 200 staff to its sales and marketing team and established 12 new sales offices.

To ensure the efficiency, productivity and stability of the Company's network, the distributors are managed and supported by an in-house team of sales and product managers. The local knowledge and expertise of the distributors have been proven to form a highly successful and cost-efficient sales model, resulting in rapid and deep market penetration.

During the year the Company conducted training for its sales and marketing team so as to strengthen their capabilities. Also, the Company stepped up its marketing efforts by organizing various academic promotion activities. The Company organized 10 national medical conferences, 59 provincial medical conferences and 1,357 departmental seminars in hospitals in order to forge closer ties with academic experts and further fortify the reputation of the Sihuan's brand and the Company's leading position in the market. As a result of the Company's continuous efforts in securing tenders, the Company boosted its sales by winning tenders for its key products in most regions and at stable price levels. In addition, the Company's existing products have reached additional clinical departments in hospitals covered in its distribution network and its newly acquired products have reached around 4,000 hospitals.

(iv) Research and Development

The Company believes that its proven R&D capabilities and promising product pipeline are the keys to continuing to drive sustainable growth. The Company continued its substantial investments in R&D initiatives in the past decade in order to develop innovative drugs as well as first-to-market generic drugs.

Important R&D achievements in 2011

	Project	Product Characteristics	Project Progress
Innovative Drugs R&D Team	Apapenem (艾帕培南)	Beta-lactam anti-infective with the widest antibacterial spectrum and the strongest antibiotic activity.	A Category I Innovative Drug Received approval for the clinical trial.
	Tylerdipine Hydrochloride (鹽酸泰樂地平)	CCV drug for treating hypertension while protecting important organs such as the heart and kidneys.	A Category I Innovative Drug Completed the pre-clinical study. Applied to conduct clinical trials with SFDA.
	Phencynonate Hydrochloride (左旋鹽酸苯環壬酯)	CCV drug for treatment of vertigo symptoms caused by vertebrobasilar ischemia and other diseases.	A Category I Innovative Drug, which will soon complete Phase II of its clinical trials.
Generic Drugs R&D Team	Cinepazide Mesilate (甲磺酸桂哌齊特)	CCV drug for improving the ischemic tissue blood supply and protecting the ischemic tissue. Widely used in the treatments of cardiovascular and cerebrovascular and peripheral vascular diseases.	An exclusive Category IV New Drug which has completed Phase I and will soon commence Phase II of clinical trials.
	Roxatidine Injection (羅沙替丁)	Digestive drug for the treatment of severe stomach acidity and other stomach illnesses.	A Category III Drug first-to-market generic drug. Pending approval for production licenses.
	Nalmefene Hydrochloride (鹽酸納美芬)	Drug to prevent and reverse the effects of opioids, including respiratory depression, sedation and hypotension.	Pending approval for production licenses.

The Company's innovative drugs R&D team is one of the largest R&D teams of its kind in China, comprising 299 personnel, 13 doctorate degree holders and 140 master's degree holders. At present, the Company has 10 innovative patented drugs at various stages of development.

During 2011, the team received approval for clinical trials of Apapenem (艾帕培南), a Category I innovative drug, for the Company. The Company's Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category I innovative drug, will soon complete Phase II of its clinical trials, and Tylerdipine Hydrochloride (鹽酸泰樂地平), another Category I innovative drug, is an anti-hypertension medication which also helps to protect heart and kidney function, has completed pre-clinical studies and successfully applied to conduct clinical trials with the SFDA. The Company has four other innovative drugs pending approval for clinical trials.

Highlighting the strength of the innovative drug team, in 2011 two of the Company's key research scientists were included in the "One-thousand-talent Scheme" (千人計劃) and "Ten-thousand-talent Scheme" (萬人計劃), respectively. These schemes, implemented by the Chinese government, aim to boost innovation capability in China and provide attractive salaries and funding to the selected researchers.

The development of generic drugs is supported by a team of 59 personnel, 4 doctorate degree holders and over 20 master's degree holders. The team has received approval for the clinical trial of Cinepazide Mesilate (甲磺酸桂哌齊特), an exclusive Category IV New Drug, which has finished phase I of clinical trials and will commence the phase II of clinical trials soon. In addition, the team has more than five cases pending approval for production licenses, including Roxatidine injection (羅沙替丁), a first-to-market generic drug, and Nalmefene Hydrochloride (鹽酸納美芬).

In 2011, the Company newly filed 56 patent applications, including six Patent Cooperation Treaty ("PCT"), and has been granted 75 patent rights. 2 projects won national awards: Apapenem (艾帕培南) was awarded as "Major Innovative Drug in the 12th Five-Year Plan" ("十二五"重大新藥創製專項) and Cinepazide (桂哌齊特) as "Important Technical Advancement of Major Innovative Drug Type in the 12th Five-Year Plan" ("十二五"重大創製大品種技術改造). The Company's R&D team also began/added 20 new projects during the year, bringing the total number of projects to more than 70.

(v) Production

The Company's manufacturing activities are carried out at the following three main production bases:

Chemical drugs production base

Beijing Sihuan pharmaceutical Co., Ltd. is the production base of the Company's chemical drugs and was granted the "High and New Technology Enterprise" (高新技術企業) status. Beijing Sihuan operates six production lines at its chemical medicine production plant in Tongzhou District, Beijing. To meet the growing demand for chemical medicine, construction of a new production and R&D centre in the Zhangwan Development Zone of Tongzhou District commenced in 2011. With a total site area of 175 mu, the center is expected to complete construction in August 2013.

Active pharmaceutical ingredient and intermediates production base

Langfang Sihuan Gaobo Pharmaceutical Co., Ltd. ("Langfang Sihuan Gaobo") in Langfang, Hebei Province is the production base for active pharmaceutical ingredient ("API") manufacturing and pharmaceutical intermediates. The base commenced production and sales in the first half of 2011, and it has also successfully passed the new GMP standards in September 2011. During the year, the plant commenced production of major APIs such as Cinepazide Maleate (馬來酸桂哌齊特), Naloxone Hydrochloride (鹽酸納絡酮) and Oxcarbaxepine (奥卡西平) etc.

Production base for TCM and other products

Jilin Sihuan Pharmaceutical Co., Ltd. ("Jilin Sihuan", formerly known as Dupromise Holdings Limited, recently granted the "High and New Technology Enterprise" (高新技術企業) status), Changchun Xiangtong Pharmaceutical Co., Ltd ("Changchun Xiangtong"). and Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang", formerly known as Vinise Pharmaceutical Ltd.) are the production bases of the Company's TCM and other products in northern China. They will be upgraded to boost the overall production capacity of the Company. In compliance with the new GMP standards, the plants are expected to finish their upgrades by the end of 2013.

To ensure that the Company's facilities comply with the new GMP standards as well as improve cost efficiency, Sihuan Pharmaceutical has exerted relentless effort into improving the quality control of its key products and upgrading the newly acquired production facilities.

As a result, quality control was well managed during 2011. The application to raise the product quality standards of Kelinao and Anjieli for the third time has been approved by the SFDA. The significant advancement in national quality standards of these products has raised barrier to new entrants. The Company has also conducted studies with an aim to raise the standards of quality of Oudimei and Yuanzhijiu etc.

(vi) Mergers and Acquisitions

The Company continues to be active in pursuing M&A in order to drive diversification and growth, as evidenced by the successful identification, acquisition, and integration of high-potential assets, obtaining several exclusive products, such as Oudimei and Yuanzhijiu.

In July 2011, the Company acquired a 100% equity interest in Smart Baskets Investment Limited ("Smart Baskets"), the sole equity holder of Jilin Sichang, through its wholly-owned subsidiary Sun Moral International (HK) Ltd. ("Sun Moral"). The strategic move enabled the Company to immediately enter China's TCM market by adding four key CCV products with vast potential to its product portfolio, including Breviscapine and Sodium Chloride Injections, Scutellarin Glucose Injections, Salviae Miltiorrhizae Liguspragine Hydrochloride and Glucose Injections. Included in either provincial or national medical insurance catalogues, these products are widely used among clinical physicians due to their efficacy and safe profiles.

Subsequent to this acquisition, the Company signed an agreement to conditionally sell a 50% equity interest in Jilin Sichang to Shangdong Buchang Pharmaceutical Co., Ltd. ("Buchang") in July 2011. The equity sale demonstrates the close cooperation between Shandong Buchang and the Company in their joint efforts to develop the existing four major products of Jilin Sichang as well as more TCM products for the treatment of CCV diseases. Capitalizing on Buchang's leading position in China's TCM market, the cooperation will expedite the Company's market expansion into the TCM sector and further consolidate the Company's leading position in the entire CCV market.

Leveraging the Company's highly efficient management and sales systems, Sihuan Pharmaceutical demonstrated its ability to integrate its newly acquired businesses into its existing business in terms of their financial management system, quality control and efficiency of production system and sales and marketing system. The Company's ability to smoothly and effectively integrate newly acquired businesses generates impressive synergies that will drive sustainable future growth.

FUTURE PROSPECTS

Looking ahead, Sihuan Pharmaceutical is well-positioned for long-term growth. Despite ongoing challenges in the pharmaceutical industry due to policy changes, the Company believes that the industry will remain one of the fastest growing in China. This view is underpinned by favorable market characteristics and robust demand for pharmaceutical products driven by stable Chinese economic growth, the expansion of medical insurance coverage, the rise of per capita funding standards for medical insurance and maximum reimbursements for medical treatment. China's accelerated urbanization, aging population and burgeoning government support for the biotechnology industry as stipulated in China's 12th Five-Year Plan are also important contributory factors to the Chinese pharmaceutical industry growth story and Sihuan Pharmaceutical's optimistic industry outlook.

Sihuan Pharmaceutical's leading market position, sufficient resources, and focused growth strategy enable it to capture market opportunities in China's evolving health care environment. Moving forward, the Company will be focused on optimizing its product portfolio, enhancing its proven sales and marketing strategies, diversifying its product offerings through M&A and R&D activities, and expanding its market share as it seeks out new areas for growth. Each of these focal points will help Sihuan Pharmaceutical expand revenue, grow its business and deliver sustainable long-term growth for its shareholders. The main components of Sihuan Pharmaceutical's growth strategy are outlined below.

Optimize product portfolio

The Company will leverage management's extensive health care experience and strong understanding of market trends and government policies to optimize its product portfolio. It will allow the Company to take advantage of broader market opportunities and expand its revenue sources by focusing on:

i) Maintaining steady growth of its existing products such as Kelinao, Anjieli, Qu'Ao, Qingtong and GM1, which provide a solid foundation for the Company's business;

ii) Supporting its fast-growing products, such as Oudimei, Yuanzhijiu, Yimaining/Yimaikang and Guhong, which are set to outpace growth of the industry as a whole;

iii) Promoting newly acquired TCM products with high-market potential, among which Scutellarin Glucose injections and Salviae Miltiorrhiza and Ligustrazine injections, which were added to the Company's product portfolio after the acquisition of Jilin Sichang in July 2011, were launched in November. With expanding market coverage, the Company expects that these products will gradually increase their contributions to the Company's revenue in 2012 after tenders in different regions and provinces.

iv) Investing in its robust product pipeline which has various products set for launch in 2012, including Roxatidine Hydrochloride Injection (注射用鹽酸羅沙替丁) and Nalmefene Hydrochloride (鹽酸納美芬). The Company believes that these products with great potential will achieve fast growth after they are launched.

Enhance sales and marketing strategies

The Company will continue to enhance its proven sales and marketing model, which remains a key differentiator and growth driver for its business. Further refinement in this model will also help effectively leverage the Company's ability to successfully integrate and manage new products and its large sales and marketing network. Enhancing the Company's sales and marketing strategies will concentrate on the following initiatives:

i) Expanding its sales and marketing teams, and providing additional professional training to its sales and marketing teams in order to enhance their product knowledge and professionalism;

ii) Implementing marketing strategies to address the specific needs and characteristics of different markets, hospitals and clinical departments to increase growth in third and fourth tier cities and market saturation in existing areas;

iii) Securing tenders of existing and new products at stable price levels to provide more steady and long-term sales performance; and

iv) Establishing quick, market brand awareness and subsequent clinical usage of newly acquired products through academic and media promotion events, seminars, and conferences.

Seek appropriate strategic M&A and collaboration opportunities

Sihuan Pharmaceutical's M&A and collaboration activities continue to be an important part of the Company's business and product development, and are key catalysts for sustainable future growth. The Company will continue to identify appropriate M&A and collaborative opportunities that are in line with its view of market trends and demands across all product types to create synergies with its existing product development and business goals.

The Company places significant emphasis on engaging with companies that possess products complementary to its own product mix and which enjoy fast-growing market demand, high levels of efficacy and international recognition. Furthermore, as the Company solidify its leading position in the CCV area while expanding into other therapeutic areas, it will also explore both local and international opportunities in North America, Europe, Japan and Taiwan in high-growth potential areas such as biotechnology area, a key focus in China's 12th Five-Year Plan. The Company will also explore other therapeutic areas such as oncology and CNS.

Enhance R&D and production capabilities

Sihuan Pharmaceutical will increase its R&D product development capabilities by investing further in its R&D team and development of key projects in pipeline. This initiative will help reduce time required to commercialize the Company's new products, diversify its product portfolio through the development of new drugs and consolidate its leading market position.

As part of this strategy, the Company commenced construction of a new R&D and production center in Tongzhou in 2011, and continues to invest in upgrading its existing and newly acquired facilities in compliance with new GMP standards and industry quality control requirements.

Expand market share

The Company's leading market share and distribution network are key contributors to its continued growth. Sihuan Pharmaceutical will focus on expanding its market share in China, a task which incorporates all aspects of its growth strategy.

In China, the Company will utilize its proven sales and marketing model and robust network to expand its market share across its leading CCV and non-CCV products. The Company will leverage its local knowledge and expertise of its sales and marketing team to efficiently and sustainably deepen market penetration.

Over the long-term, Sihuan Pharmaceutical will also explore appropriate opportunities to expand into markets outside of China as it seeks to develop its business and grow its brand in other growth markets.

FINANCIAL REVIEW

Revenue

In 2011, the Company continued to strengthen its CCV drug franchise and focused on expanding into new product markets through acquisitions. Our sales revenue was driven by increased sales of other therapeutic drugs with prospects for rapid growth. Total revenue increased by 116.2% from RMB1,036.9 million in 2010 to RMB2,242.1 million in 2011. The increase in revenue was mainly attributable to strong growth in sales of CCV drugs, particularly those newly acquired products.

Revenue from sales of CCV drugs amounted to approximately RMB2,019.7 million in 2011, representing approximately 141.1% growth over 2010 and accounting for approximately 90.1% of the Group's turnover. The increase was primarily due to the strong demand for our new products such as Oudimei after massive promotional and marketing activities undertaken through our distribution network. Additional regional sales offices were also set up in order to penetrate into cities such as Changchun and Dalian and its surrounding areas. The increase in revenue from sales of CCV drugs was mainly attributable to sales of products acquired since our listing on the Main Board of the Stock Exchange, which contributed revenue of RMB928.2 million, or 41.4% of the total revenue from sales during the year. Sales revenue of Kelinao and Anjieli, our core products, increased by 16.1% and 77.5% from RMB456.1 million and RMB113.9 million in 2010 to RMB529.4 million and RMB202.2 million in 2011, respectively. Revenue from sales of GM1 increased by 117.1% from RMB66.2 million in 2010 to RMB143.6 million in 2011. Sales of Qingtong also rose 27.7% to RMB45.7 million in 2011 from RMB35.8 million in 2010.

Our revenue derived from anti-infective drugs recorded approximately 0.4% growth to RMB86.8 million in 2011 from RMB86.4 million in 2010, accounting for approximately 3.9% of the Group's total revenue, despite the introduction of PRC government measures that restrict the use of anti-infective drugs. Revenue of other drugs increased by approximately 13.2% to RMB125.4 million, accounting for approximately 5.6% of the Group's total revenue. The increase in sales revenue of anti-infective and other drugs was primarily due to the fact that the revenue from sales of Pojia (Sulbenicillin Sodium for Injection), a new product introduced in 2010, increased by approximately 83.9% to RMB36.2 million, and total sales of Luoanming increased by 60.7% from RMB22.0 million in 2010 to RMB35.4 million in 2011. Sale of active pharmaceutical ingredient and intermediates also contributed RMB9.2 million in 2011.

Cost of sales

Cost of sales rose to RMB527.6 million in 2011 compared to RMB292.1 million in 2010. The percentage of cost of sales to revenue dropped from 28.2% in 2010 to 23.5% in 2011 due to a higher proportion of sales of products manufactured in our own production facilities, as well as tightened control over production costs and improved economies of scale.

Gross profit

Our gross profit increased by 130.2% from RMB744.7 million in 2010 to RMB1,714.5 million in 2011. Overall gross profit margin improved to 76.5% in 2011 from 71.8% in 2010, which was mainly due to an increased proportion in our product mix of products with higher gross profit margins manufactured by our newly-acquired companies, as well as lower costs of production.

Other gains – net

Other net gains increased from RMB54.1 million in 2010 to RMB108.5 million in 2011. This was mainly due to an increase in government grants received by the Group from RMB51.0 million in 2010 to RMB116.0 million in 2011.

Distribution costs

The proportion of our distribution costs to total revenue increased to 28.2% or RMB631.6 million in 2011 from 5.5% or RMB56.7 million in 2010. The increase was mainly due to marketing costs related to sales of our newly acquired subsidiaries in 2011, as their sales and marketing activities relied heavily on third party service providers. Furthermore, the Group employed a larger sales force and conducted intensive marketing activities.

Administrative expenses

Administrative expenses increased by 56.1% from RMB128.8 million in 2010 to RMB201.1 million in 2011. The increase was primarily due to an increase in administrative expenses related to the growth and expansion of the Group, and integration-related expenses incurred for after the acquisitions during the year.

Net finance income

Net finance income increased from RMB21.8 million in 2010 to RMB54.5 million in 2011. The increase was mainly due to increases in interest income received by the Group.

Income tax expenses

Our income tax expense increased by 91.0% from RMB128.2 million in 2010 to RMB244.8 million in 2011.

Our effective tax rates for 2010 and 2011 were 20.2% and 23.4%, respectively. The increase in our effective tax rate was mainly attributable to the combined effects of the corporate income tax rate of 25% applicable to the newly acquired companies and the additional withholding tax provided for dividends payable according to the PRC tax regulations.

Profit attributable to owners of the Company

Profit or net profit attributable to our owners increased by 57.8% from RMB522.1 million in 2010 to RMB824.0 million in 2011.

Non-controlling interests

Losses attributable to non-controlling interests increased by 57.9% from RMB15.2 million in 2010 to RMB24.0 million in 2011, which was mainly due to the loss contributed by KBP BioSciences Co., Ltd.

Liquidity and financial resources

As at 31 December 2011, the Group's cash and cash equivalents amounted to RMB3,153.2 million as compared to RMB5,851.4 million as at 31 December 2010. We generally deposit our excess cash in interest-bearing bank accounts and current accounts. Save as disclosed below, The Group did not have other liabilities and bank loans, as a result of which, our gearing ratio (net debt to equity attributable to owners of the company plus net debt) is less than 1%.

The Group has sufficient cash as at 31 December 2011 and 2010. The directors are of the opinion that the Group does not have significant capital risk.

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Cash and cash equivalents	**3,153,154**	5,851,379
Less: Borrowings *(Note 8)*	**(5,880)**	—
	3,147,274	5,851,379

Trade and other receivables

Our trade receivables consist of the credit sales of our products to be paid by our distributors. Other receivables consist of prepayments to suppliers, deposits and other receivables. Our trade and other receivables increased by RMB458.9 million from RMB259.9 million as at December 31, 2010 to RMB718.8 million as at December 31, 2011. The increase in trade and other receivables was mainly due to the increases in credit sales, prepayments to suppliers, deposits for research and development and cooperation and other receivables, along with the increase in sales.

Inventory

Our inventory as at December 31, 2011 amounted to RMB57.7 million (December 31, 2010: RMB53.3 million). In 2011, the inventory turnover days of our finished products was 17.9 days due to the strong demand for our products before year end (2010: 27.5 days). We had no inventory impairments in 2011.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at December 31, 2011, the net book value of our property, plant and equipment amounted to RMB419.3 million, representing an increase of RMB166.1 million, or approximately 65.6%, as compared with the previous year. The increase was mainly attributable to the property, plant and equipment from newly acquired subsidiaries; the purchase of property, plant and equipment for our administrative offices, existing and new production facilities; and the purchase of certain laboratory equipment for our research centre.

Intangible assets

Our intangible assets mainly consist of goodwill, customer relationships, patents, deferred development costs and product development in progress. Our goodwill improved from the acquisitions of our subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions. For these acquisitions, our management examined the technical feasibility of completing the remaining phases of the products and estimated that they would provide future economic benefits to the Group. Accordingly, our management recognized these costs as deferred development costs and product development in progress under intangible assets. As at 31 December 2010, net intangible assets amounted to RMB3,080.1 million (31 December 2010: RMB153.5 million), mainly resulting from the patents obtained by the subsidiaries newly acquired by the Group in 2011, the goodwill generated from the acquisitions and the increase in the Group's product development in progress.

Trade and other payables

Our trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and amounts due to Directors. As at 31 December 2011, trade and other payables amounted to RMB1,540.3 million, representing an increase of RMB1,401.4 million as compared with 31 December 2010. The increase was mainly due to the remaining balance payable for the acquisitions of subsidiaries in 2011.

Contingent liabilities and guarantees

As of 31 December 2011, the Group had no material contingent liabilities or guarantees (2010: nil).

Off-balance sheet arrangements and commitments

Apart from the capital commitment and operating commitment in Note 16, we have not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payments or liabilities of any third parties. We 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 that engage in the provision of leasing, hedging or research and development services to us.

Pledge of assets

As at 31 December 2011, none of our assets was pledged.

Treasury policies

The Group finances its ordinary operations with internally generated resources.

Capital commitment

As of 31 December 2011, the Group had a total capital commitment of RMB34.9 million, mainly set aside to acquire property, plant and equipment and intangible assets.

Credit risk

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

With respect to available-for-sale financial assets, we invest in discounted bank acceptance bills and commercial acceptance bills of large PRC state-owned banks.

Held-to-maturity financial assets are RMB straight bonds placed with high-quality international financial instruments. There was no recent history of default and the directors are of the opinion that the credit risk to the investment is low.

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

Foreign exchange risk

As all of our revenues are generated from our businesses in the PRC, RMB is our functional currency. Our financial instruments are denominated in RMB. We are not subject to material currency risk as we have 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.

Capital expenditure

Our capital expenditure primarily consists of the purchase of property, plant and equipment, land use rights and intangible assets. In 2011, our capital expenditures was amounted to RMB261.2 million, of which RMB114.5 million was spent on property, plant and equipment, RMB97.5 million was spent on purchasing intangible assets and the remaining RMB49.2 was spent on acquisition of land use rights.

Material acquisitions and disposals

The total acquisition cost of the Group in 2011 was approximately RMB3,351.8 million. The Group completed the following acquisitions: 1) 100% equity interest in Dupromise Holdings Limited and its subsidiary at a consideration of approximately RMB2,400.0 million; 2) 80% equity interest in Changchun Xiangtong at a consideration of approximately RMB140.6 million; 3) Benxi Hengkang Pharmaceutical Co. Ltd. at a consideration of approximately RMB36.2 million; and 4) 100% equity interest in Smart Baskets and its subsidiaries at a consideration of approximately RMB775.0 million.

The considerations of the acquisitions above were determined after arm's length negotiation and conformed to the fair market valuation made by a third party valuer or the audited asset value of the acquisition targets.

During the reporting period, the Group disposed of a 19% equity interest in Jilin Sichang, a subsidiary of the Group, to a third party at a consideration of approximately RMB242.3 million under the first completion, the remaining 31% of equity interest should take place in second completion on or before 31 December 2012.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

Human resource is an indispensable asset 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 them to work towards enhancing the value of our Company and promoting the long-term growth of our Company

As at 31 December 2011, the Group had 1,587 employees. For the year ended 31 December 2011, total salary and related costs of the Group were RMB95.6 million (2010: RMB65.3 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During 2011, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) 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.

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

During the year, the Company repurchased its own 12,476,000 shares through the Stock Exchange for an aggregate consideration of approximately HK$42,290,000 after expenses pursuant to the Company's share repurchase mandate granted on 3 June 2011 as follows:

Date of repurchase	Price per share Highest	Price per share Lowest	Number of ordinary shares of HK $0.01 each	Total consideration
	HK$	*HK$*		*HK$'000*
12 July 2011	3.45	3.42	2,482,000	8,537.0
13 July 2011	3.29	3.28	957,000	3,151.7
19 July 2011	3.45	3.22	9,037,000	30,600.9

The repurchased shares were cancelled and accordingly, the issued share capital was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board for the enhancement of shareholders' value in the long term.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions of Code on Corporate Governance Practices (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. Dr. Che Fengsheng held the roles of both Chairman and chief executive officer of the Company. The Board considers 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 is suitably qualified to lead the Company and formulate effective strategies to react promptly to market changes and new challenges. His continual service in both roles would be beneficial to the stable and healthy development of the Company. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

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 as its own code of conduct for securities transactions by the Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2011 and up to the date of this annual results announcement.

AUDIT COMMITTEE

The Company established the audit committee with written terms of reference in compliance with the requirements of Rule 3.21 of the Listing Rules and the Code, as set out in Appendix 14 to the Listing Rules. 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 (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen), 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 audit committee to the Board.

The annual results of the Group for the year ended 31 December 2011 have been reviewed by the audit committee.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in compliance with the Code. The primary duties of the nomination committee include, among others, reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and making recommendation 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 (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen). Mr. Xu Kangsen has been appointed as the chairman of the nomination committee on 19 March 2012.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference in compliance with the Code. The primary duties of the remuneration committee are, amongst others, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. As at the date of this announcement, the remuneration committee consists of an executive Director (Dr. Che Fengsheng) and three independent non-executive Directors, (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen). Mr. Bai Huiliang has been appointed as the chairman of the remuneration committee on 19 March 2012.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 1 June 2012. The notice of the Annual General Meeting will be published on the Company's website and the Stock Exchange's website and sent to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 28 May 2012 to 1 June 2012 (both dates inclusive). In order to determine the identity of the shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on 25 May 2012.

DIVIDENDS

The Board is confident in the ongoing cash generation of the Group, and recommended the payment of a final dividend of RMB2.5 cents per share and a second special dividend of RMB7.2 cents per share for the year ended 31 December 2011. Together with interim dividend of RMB1.9 cents per share and special dividend of RMB7.8 cents per share, the total dividend for the year ended 31 December 2011 will be RMB19.4 cents per share.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL DIVIDEND AND SPECIAL DIVIDEND

The register of members of the Company will be closed from 7 June 2012 to 13 June 2012 (both dates inclusive). In order to qualify for the final dividend and second special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 6 June 2012. The final dividend and second special dividend are subject to the approval of shareholders at the Annual General Meeting, will be payable on 22 June 2012 to shareholders on the register of members of the Company on 13 June 2012.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 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 2011 will be dispatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

The Board would like to express its sincere appreciation to its 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.

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

Hong Kong, 19 March 2012

As at the date of this announcement, our executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng and Mr. Meng Xianhui, our non-executive Directors are Dr. Zhang Jionglong, Messrs Homer Sun and Mr. Eddy Huang and our independent non-executive Directors are Messrs Patrick Sun, Bai Huiliang and Xu Kangsen.