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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board (the "Board") of directors (the "Directors") of Sihuan Pharmaceutical Holdings Group Ltd. ("Sihuan Pharmaceutical" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2013 (the "Period" or "1H 2013") together with the comparative figures for 2012. These interim results have been reviewed by the external auditors of the Company, Messrs. PricewaterhouseCoopers, in accordance with the International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the "Audit Committee").

INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2013	**2012**	**Change**
	RMB'000	*RMB'000*	
Key Profit or Loss Items			
Revenue	2,324,747	1,389,297	67.3%
Gross profit	1,847,116	1,071,419	72.4%
Operating profit	644,817	533,425	20.9%
Profit attributable to owners of the Company	617,535	461,445	33.8%
Key Financial Ratios			
Gross profit margin	79.5%	77.1%	
Net profit margin	26.6%	33.2%	
Earnings per share - Basic (RMB cents)	11.933	8.917	
Receivable Turnover (days)	50	60	
Inventory Turnover (days)	42	36	
Interim dividend per share (RMB cents)	4.3	3.1	

- Revenue of the Group increased by 67.3% to RMB2,324.7 million (1H 2012: approximately RMB1,389.3 million).
- Gross profit margin slightly increased to 79.5% (1H 2012: 77.1%) due to faster growth of higher-margin products.
- Profit attributable to owners of the Company increased by 33.8% to RMB617.5 million (1H 2012: approximately RMB461.4 million).
- Basic earnings per share increased to approximately RMB11.933 cents (1H 2012: approximately RMB8.917 cents).
- An interim dividend of RMB4.3 cents per share was declared by the Board.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2013** *RMB'000* Unaudited	**31 December 2012** *RMB'000* Audited
Assets			
Non-current assets			
Property, plant and equipment	3	1,339,089	924,052
Investment properties	3	30,066	30,894
Intangible assets	3	3,697,856	3,735,030
Land use rights	3	205,213	165,637
Trade and other receivables	4	159,882	154,192
Interest in an associate	5	37,279	40,962
Deferred income tax assets		179,419	265,176
Other non-current assets		94,171	122,521
		5,742,975	5,438,464
Current assets			
Inventories		129,759	91,472
Trade and other receivables	4	980,521	769,120
Available-for-sale financial assets		438,512	717,921
Term deposits with initial term of over three months		743,560	898,560
Cash and cash equivalents		1,359,905	1,543,907
		3,652,257	4,020,980
Total assets		9,395,232	9,459,444

	Note	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Equity			
Equity attributable to owners of the Company			
Share capital		44,419	44,419
Share premium		5,573,951	5,573,951
Other reserves		67,876	65,256
Retained earnings			
-Proposed dividends		222,526	300,151
-Others		1,495,560	1,100,551
		7,404,332	7,084,328
Non-controlling interests		110,091	102,927
Total equity		7,514,423	7,187,255
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		178,292	208,532
Other non-current liabilities		249,010	207,407
Borrowings	8	5,880	5,880
		433,182	421,819
Current liabilities			
Trade and other payables	7	783,111	867,368
Borrowings	8	525,122	767,234
Current income tax liabilities		139,394	215,768
		1,447,627	1,850,370
Total liabilities		1,880,809	2,272,189
Total equity and liabilities		9,395,232	9,459,444
Net current assets		2,204,630	2,170,610
Total assets less current liabilities		7,947,605	7,609,074

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	**2013**	**2012**
		RMB'000	*RMB'000*
		Unaudited	Unaudited
Revenue	2	2,324,747	1,389,297
Cost of sales		(477,631)	(317,878)
Gross profit		1,847,116	1,071,419
Other income	9	7,873	—
Other gains — net	9	147,245	174,996
Distribution costs		(1,229,015)	(587,593)
Administrative expenses		(128,402)	(125,397)
Operating profit	9	644,817	533,425
Finance income		63,821	64,088
Finance costs		(5,439)	(1,624)
Finance income — net		58,382	62,464
Share of post tax operating loss of an associate	5	(3,620)	—
Loss on dilution of interest in an associate	5	(63)	—
Profit before income tax		699,516	595,889
Income tax expense	10	(79,364)	(120,642)
Profit for the period		620,152	475,247
Profit attributable to:			
Owners of the Company		617,535	461,445
Non-controlling interests		2,617	13,802
		620,152	475,247

	Note	Six months ended 30 June 2013	2012
		RMB'000	RMB'000
		Unaudited	Unaudited
Earnings per share attributable to owners of the Company			
- Basic and diluted earnings per share (RMB cents)	11	11.933	8.917
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Changes of available-for-sale financial assets, net of tax		1,491	1,110
Other comprehensive income for the period, net of tax		1,491	1,110
Total comprehensive income for the period		621,643	476,357
Total comprehensive income attributable to:			
Owners of the Company		619,026	462,555
Non-controlling interests		2,617	13,802
		621,643	476,357
Dividends	12	222,526	160,426

INTERIM CONDENSED 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*
Unaudited							
Balance as at 1 January 2013	44,419	5,573,951	65,256	1,400,702	7,084,328	102,927	7,187,255
Comprehensive income							
Profit for the period	—	—	—	617,535	617,535	2,617	620,152
Other comprehensive income							
Disposal of available-for-sale financial assets	—	—	(1,021)	—	(1,021)	—	(1,021)
Change in fair value of available-for-sale financial assets	—	—	2,512	—	2,512	—	2,512
Total other comprehensive income, net of tax	—	—	1,491	—	1,491	—	1,491
Total comprehensive income for the period ended 30 June 2013	—	—	1,491	617,535	619,026	2,617	621,643
Transactions with owners							
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	4,547	4,547
Dividends	—	—	—	(300,151)	(300,151)	—	(300,151)
Employees share award scheme:							
— value of employee services	—	—	1,129	—	1,129	—	1,129
Balance as at 30 June 2013	44,419	5,573,951	67,876	1,718,086	7,404,332	110,091	7,514,423

	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*
Unaudited							
Balance as at 1 January 2012	44,419	5,573,951	153,485	1,173,679	6,945,534	48,409	6,993,943
Comprehensive income							
Profit for the period	—	—	—	461,445	461,445	13,802	475,247
Other comprehensive income							
Change in fair value of available-for-sale financial assets	—	—	1,110	—	1,110	—	1,110
Total other comprehensive income, net of tax	—	—	1,110	—	1,110	—	1,110
Total comprehensive income for the period ended 30 June 2012	—	—	1,110	461,445	462,555	13,802	476,357
Transactions with owners							
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	4,310	4,310
Dividends	—	—	—	(501,978)	(501,978)	—	(501,978)
Employees share award scheme:							
— value of employee services	—	—	4,371	—	4,371	—	4,371
Balance as at 30 June 2012	44,419	5,573,951	158,966	1,133,146	6,910,482	66,521	6,977,003

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Net cash generated from operating activities	556,823	297,314
Net cash used in investing activities	(199,013)	(1,520,008)
Net cash generated from/(used in) financing activities	(541,812)	191
Net decrease in cash and cash equivalents	(184,002)	(1,222,503)
Cash and cash equivalents at beginning of period	1,543,907	3,153,154
Cash and cash equivalents at end of period	1,359,905	1,930,651

Notes to the Condensed Interim Financial Information for the six months ended 30 June 2013

1. BASIS OF PREPARATION

This condensed interim financial information for the six months ended 30 June 2013 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standard ("IFRS").

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013.

- Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment did not have a material impact on the Group's condensed interim financial information.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This new standard did not have a material impact on the Group's condensed interim financial information.

- IAS 27 (revised 2011) 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This revised standard did not have a material impact on the Group's condensed interim financial information.

- IAS 28 (revised 2011) 'Associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This revised standard did not have a material impact on the Group's condensed interim financial information.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This new standard did not have a material impact on the Group's condensed interim financial information.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. This new standard did not have a material impact on the Group's condensed interim financial information.

- Amendment to IFRS 7, 'Financial instruments: Disclosures-Offsetting financial assets and financial liabilities'. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. This amendment did not have a material impact on the Group's condensed interim financial information.

- Amendment to IAS 34,"Interim financial reporting". The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. This amendment did not have a material impact on the Group's condensed interim financial information.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(b) ***New standards and amendments to existing standards effective for annual periods beginning on or after 1 January 2013 but not relevant to the Group***

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangements rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- Amendment to IAS 19 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

- Amendment to IFRS 1 'First-time adoption of international financial reporting standards". The amendments require that a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with IAS 32 Financial Instruments: Presentation.

2. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of the Company. 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.

As the Board reviews the financial position of the Group as a whole, no segment assets/liabilities were disclosed.

3. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, INTANGIBLE ASSETS AND LAND USE RIGHTS

	Property, plant and equipment	**Investment properties**	**Other intangible assets**	**Goodwill**	**Land Use Rights**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Six months ended 30 June 2013					
Opening net book amount as at 1 January 2013	924,052	30,894	1,027,595	2,707,435	165,637
Additions	435,744	—	35,404	—	42,519
Depreciation and amortisation	(20,707)	(828)	(72,578)	—	(2,943)
Closing net book amount as at 30 June 2013	1,339,089	30,066	990,421	2,707,435	205,213
Six months ended 30 June 2012					
Opening net book amount as at 1 January 2012	419,258	6,834	471,302	2,608,845	88,912
Additions	97,604	—	6,180	—	7,668
Transfer to investment properties	(8,590)	—	—	—	—
Transfer from property, plant and equipment	—	8,590	—	—	—
Transfer to disposal group classified as held for sale	—	—	—	(381,910)	—
Depreciation and amortisation	(17,604)	(407)	(26,602)	—	(1,668)
Closing net book amount as at 30 June 2012	490,668	15,017	450,880	2,226,935	94,912

4. TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 RMB'000 Unaudited	As at 31 December 2012 RMB'000 Audited
Trade receivables — third parties	687,426	599,582
Prepayments to suppliers	174,410	69,426
Amount receivable from partial disposal of a subsidiary[a]	159,882	154,192
Corporate income tax receivables	35,130	—
Value added tax receivables	33,286	20,409
Other receivables	50,269	79,703
	1,140,403	923,312
Less: non-current portion:		
Amount receivable from partial disposal of a subsidiary[a]	159,882	154,192
Current Portion	980,521	769,120

(a) Amount receivable from partial disposal of a subsidiary represents the consideration not yet received relevant to the partial disposal of Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang"), which bear effective interest rate of 8% as at 30 June 2013 (31 December 2012: 7.22%).

Trade and other receivables do not contain impaired assets, have no fixed repayment term. Except for the amount mentioned above in Note (a), trade and other receivables bear no interest.

The Group's credit terms granted to customers range from one month to one year. As at 30 June 2013, the aging analysis of the trade receivables based on invoice date was as follows:

	As at 30 June 2013 RMB'000 Unaudited	As at 31 December 2012 RMB'000 Audited
Trade Receivables		
Within 3 months	541,267	563,994
3 to 6 months	130,522	32,607
6 to 12 months	15,344	2,666
More than 12 months	293	315
	687,426	599,582

5. INTEREST IN AN ASSOCIATE

	2013
	RMB'000
	Unaudited
Opening balance at 1 January	40,962
Share of post tax operating loss of an associate	(3,620)
Loss on dilution of interest in an associate	(63)
Closing balance at 30 June	37,279

In October 2012, the Group acquired 30% interest of Orion TC Holdings Limited ("Orion") and its wholly owned subsidiary, Shandong Hengli Pharmaceutical Technical Co. Ltd. ("Shandong Hengli"), which mainly engage in research and development of pharmaceutical products in PRC.

In June 2013, controlling shareholder of Orion made an additional capital injection of USD16,000,000 as a result of which, the Group's share of interests in Orion decreased from 30% to 16.67%. The different between the percentage of share of net assets of Orion before and after the capital injection was recorded as loss on dilution of interest in an associate.

6. SHARE-BASED PAYMENT

(i) Share award scheme

Certain shareholders of the Company adopted an employee share award scheme (the "Scheme") in relation to an aggregate of no more than 30% of the aggregate of shares in issue on 25 October 2010, representing 33,750,000 shares (subject to the terms of the Scheme and the relevant provisions under the Listing Rules). The purpose of the Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

A private trust company established in the British Virgin Islands ("Trustee Co") has been appointed as the trustee to hold the Reserve Shares (as defined below) under the Scheme. Certain shareholders of the Company, namely Plenty Gold Enterprises Limited ("Plenty Gold"), Dr. Che Fengsheng and Dr. Guo Weicheng transferred 41,320,100 shares of the Company ("Reserve Shares") to Trustee Co prior to the Company's primary listing on The Stock Exchange of Hong Kong Limited on 28 October 2010. Trustee Co is wholly-owned by Plenty Gold and controlled by certain shareholders of the Company. The Reserve Shares are intended to be the trust assets for the scheme.

The Company measures the services received from its employees. No new share will be issued by the Company under the Scheme and there is no dilution impact to earning per share calculation as a result of the Scheme.

(ii) **Share awards movement**

On 20 March 2012, share awards were granted to certain employees of the Group entitling them to acquire an aggregate of 14,150,000 shares of the Company at an exercise price of HK$3.19 per share under the Scheme. The outstanding share awards involving 5,900,000 shares of the Company will be vested in accordance with the following schedule:

Vesting date	**Number of awards vested** *In thousands*
20 March 2014	4,717
20 March 2015	1,183
	5,900

Movements in share awards outstanding and their related weighted average exercise prices are as follows:

	2013		**2012**	
	Average exercise price in HK$ per share	**Number of shares (in thousands)**	**Average exercise price in HK$ per share**	**Number of shares (in thousands)**
Employees				
At 1 January	3.19	7,484	—	—
Granted	—	—	3.19	14,150
Exercised	3.19	(1,584)	—	—
At 30 June	3.19	5,900	3.19	14,150

The related weighted average market price at the time of exercise was HK$3.55 per share.

All of the share awards outstanding involving 5,900,000 shares of the Company will be expired on 21 March 2017.

7. TRADE AND OTHER PAYABLES

	As at	
	30 June 2013	**31 December 2012**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade payables	46,812	36,207
Accrued marketing service fee	306,386	329,923
Advances from customers	141,072	88,668
Value added tax payables	49,846	16,071
Advance of compensation from government for demolition of existing premise	30,000	30,000
Deposit payables	72,150	73,434
Accrued performance bonus to directors	24,000	4,800
Payable of purchase of customer relationship	5,000	185,000
Amount payables due to the acquisition of subsidiaries	—	20,000
Other payables	107,845	83,265
	783,111	867,368

At 30 June 2013, the aging analysis of the trade payables based on invoice date were as follows:

	As at	
	30 June 2013	**31 December 2012**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Payables		
Within 6 months	40,240	30,078
6 to 12 months	1,439	711
More than 12 months	5,133	5,418
	46,812	36,207

8. BORROWINGS

	As at 30 June 2013	As at 31 December 2012
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current		
-Other loans [(a)]	5,880	5,880
Current		
-Bank borrowings [(b)]	462,036	704,148
-Other loans [(a)]	63,086	63,086
	531,002	773,114

(a) These amounts mainly comprised the borrowings from Langfang Gaobo Jingband Pharmaceutical Co.,Ltd.("Langfang Gaobo Jingband")'s, Jilin Sichang's and Tonghua Tianshi Pharmaceutical Co.,Ltd.'s non-controlling interest, which bear effective interest rate of 6.17% as at 30 June 2013 (31 December 2012: 6.91%) and will be repaid from 2014 to 2015.

(b) Bank borrowings of RMB162,160,000 as at 30 June 2013 (31 December 2012: RMB209,301,000) were guaranteed by the Company without pledge. Bank borrowings of RMB116,650,000 as at 30 June 2013 (31 December 2012: nil) were guaranteed by the term deposit of RMB250,000,000. Bank borrowings of RMB183,226,000 as at 30 June 2013 (31 December 2012: RMB494,847,000) were unsecured borrowings. All of the above borrowings will be repaid within 3 to 12 months from 30 June 2013.

Movements in borrowings are analysed as follows:

	RMB'000
	Unaudited
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	773,114
Proceeds from bank borrowings	299,902
Repayments of borrowings	(542,014)
Closing amount as at 30 June 2013	531,002
Six months ended 30 June 2012	
Opening amount as at 1 January 2012	5,880
Proceeds from bank borrowings	497,532
Closing amount as at 30 June 2012	503,412

Interest expense on borrowings for the six months ended 30 June 2013 is RMB5,439,000 (30 June 2012: RMB1,291,000). The weighted average annual effective interest rate is 1.90% (2012:1.91%).

The Group has undrawn borrowing facilities of RMB245,142,000 bearing floating rate expiring within one year as at 30 June 2013 (2012: RMB32,349,000).

9. OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is given below.

	Six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sale of distribution right	6,542	—
Rental income	1,331	—
Other income	7,873	—
Government grants	151,333	153,418
Gain on disposal of available-for-sale financial assets	1,021	11,688
Processing fee income	1,297	2,043
Others	(6,406)	7,847
Other gains - net	147,245	174,996
Marketing expense	1,161,706	543,240
Depreciation and amortization	97,056	46,281
Research and development expense	31,105	28,030

10. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2013 is analysed as follows:

	Six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current tax:		
Current tax on profits for the period	121,598	394,334
Reversal of over provision [(a)]	(122,751)	—
Total current tax	(1,153)	394,334
Deferred tax:		
Origination and reversal of temporary differences	(1,080)	(273,692)
Effect on tax rate change [(a)]	81,597	—
Total deferred tax	80,517	(273,692)
Income tax expense	79,364	120,642

Income tax expense is recognised based on management's estimate of weighted average annual income tax rate expected for the full financial year.

(a) The amounts represent the impact of change in PRC corporate income tax for one of the Group's subsidiaries, Tonghua Jida Pharmaceutical Co., Ltd., after the completion of the registration of high-tech enterprises preference tax rate at 15% with the tax bureau in May 2013 before the PRC 2012 annual tax filing due date.

(b) Income tax expense

(i) Bermuda profits tax

The Group has not been subject to any taxation in this jurisdiction during the period (2012: nil).

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during the period (2012: nil).

(iii) PRC corporate income tax ("PRC CIT")

PRC CIT is provided on the assessable income of the companies now comprising the Group derived from the PRC, adjusted for those items, which are not assessable or deductible for the PRC CIT purposes.

The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at 25% tax rate.

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2013 was provided at the rate of 15%.

(iv) PRC withholding tax on retained profits

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%.

11. 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 Period.

	Six months ended 30 June	
	2013	**2012**
	Unaudited	Unaudited
Profit attributable to owners of the Company (RMB'000)	617,535	461,445
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	5,175,024	5,175,024
Basic earnings per share (RMB cents per share)	11.933	8.917

(b) ***Diluted***

There is no dilution to earnings per share during the Period because there was no potential dilutive ordinary shares issuance existing during the Period. The diluted earnings per share equal the basic earnings per share.

12. DIVIDENDS

Final dividend of RMB300,151,000 in respect of the year ended 31 December 2012 were paid in June 2013.

An interim dividend of RMB4.3 cents per share (2012: RMB3.1 cents) was declared by the Board on 25 August 2013. It is payable on or around 27 September 2013 to shareholders who are on the register of members on 13 September 2013. The interim dividend which amounted to RMB222,526,000 has not been recognised as a liability in this interim financial information. It will be recognised in the consolidated financial statements in the year ending 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Sihuan Pharmaceutical achieved remarkable financial performance during the Period, which is the result of successful implementation of a series of internal adjustment in 2012 that strengthened the Group's operational efficiency as a whole. The Group's diversified product portfolio, predominantly featuring exclusive and propriety products, delivered significant development, mainly attributable to significant rebounds of its key products Kelinao and Oudimei[1] and rapid growth of its fast-growing promising products such as Yuanzhijiu[2], Yeduojia and Danshen Chuangxiongqin. During the Period, the Group's revenue grew 67.3% to RMB2,324.7 million. Net profit attributable to owners of the Company increased by 33.8% to RMB617.5 million. Moreover, the sales contribution from products launched after the Group's listing in 2010 continued to expand, which reached approximately 60% of the Group's total revenue during the Period.

Up to 30 June 2013, the Group maintained its leadership in the cardio-cerebral vascular ("CCV") prescription drug market by growing its market share of the hospital purchase segment to 8.9%. Moreover, the Group became the third largest pharmaceutical company in the Chinese prescription drug market in terms of hospital purchases during the Period. (Source: IMS Heath Incorporated ("IMS")). In the area of research and development ("R&D"), the Group once again achieved breakthroughs and enriched its product pipeline by gaining approval for clinical trials for a number of Class 1.1 innovative drugs with new chemical entities.

(i) CCV products

Sales of key CCV products:

Product Name	For the six months ended 30 June 2012 *(RMB'000)*	 2013 *(RMB'000)*	2012 H1 Contribution to Sales of CCV Products	2013 H1 Contribution to Sales of CCV Products	Product characteristics
Oudimei (Cerebroside- kinin injection)	286,118	687,027	22.4%	31.0%	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.

(1) Names of the Group's cerebroside-kinin injection products in different dosages are Oudimei, Oufutai and Waitong, collectively known as Oudimei.

(2) Names of the Group's troxeratin and cerebroprotein hydrolysate injection products in different dosages are Yuanzhijiu and Xinwai, collectively known as Yuanzhijiu.

Product Name	For the six months ended 30 June		2012 H1 Contribution to Sales of CCV Products	2013 H1 Contribution to Sales of CCV Products	Product characteristics
	2012	2013			
	(RMB'000)	*(RMB'000)*			
Kelinao (Cinepazide maleate injection) (80 mg)	440,921	582,264	34.5%	26.3%	For improving ischemic tissue blood supply and protecting ischemic tissue. Widely used in the treatment of cardiovascular and cerebrovascular and peripheral vascular diseases.
Anjieli (Cinepazide maleate injection) (320 mg)	66,254	67,969	5.2%	3.1%	
Yuanzhijiu (Troxerutin and cerebroproptein hydrolysate injection)	91,506	202,043	7.2%	9.1%	For the treatment of cardio-cerebral vascular diseases.
GM1 (Monosialotetrah exosylganglioside sodium injection)	96,061	96,790	7.5%	4.4%	For neural tissue cells protection and repairing agents; for treatment of traumatic brain injuries, cerebral vascular accidents and Parkinson's disease.
Guhong injection (Compound of aceglutamide and safflower extract)	72,124	151,180	5.6%	6.8%	For the treatment of cerebrovascular problems such as cerebral insufficiency, cerebral embolism and cerebral hemorrhage recovery period; dysfunction caused by the awareness of liver disease, neurological surgery; mental deterioration, memory impairment, etc.
Yimaining(3) (Alprostadil lipid emulsion injection)	60,465	92,711	4.7%	4.2%	Used for targeting microcirculation and protecting organs and tissue cells. Widely used to treat chronic arteriosclerosis obliterans, unstable angina, myocardial infarction, coronary artery bypass surgery, cerebral infarction, ischemic spinal cord injury, diabetes, peripheral neuropathy, diabetes, kidney disease, etc.

(3) Names of the Group's alprostadil lipid emulsion injection products in different dosages are Yimaining and Yikongning, collectively known as Yimaining.

Product Name	For the six months ended 30 June		2012 H1 Contribution to Sales of CCV Products	2013 H1 Contribution to Sales of CCV Products	Product characteristics
	2012	2013			
	(RMB'000)	*(RMB'000)*			
Chuanqing (Ligustrazine hydrochloride for injection)	42,810	48,240	3.4%	2.2%	Widely used to treat ischemic cerebrovascular disease, coronary heart disease, cerebral embolism, vasculitis, vascular dementia, etc.
Qu'Ao (Cerebroprotein hydrolysate)	40,829	45,849	3.2%	2.1%	For promoting neural cell metabolism and differentiation and synthesis of brain protein. Widely used to treat brain cell dysfunction caused by cerebrovascular disease, traumatic brain injuries, Alzheimer's disease, etc.
Yeduojia (Compound trivitamin B for injection (II))	19,585	129,435	1.5%	5.8%	Currently the only intravenous administration of a vitamin B compound formulation; used for peripheral nerve injuries, multiple neuritis, trigeminal neuralgia, sciatica, radiation sickness, antineoplastic-induced vomiting, pernicious anemia and nutritional anemia.
Danshen Chuanxiongqin injection (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	22,208	57,121	1.7%	2.6%	Featuring anti-platelet aggregation, vasodilation and improving microcirculation, it can be used to treat occlusive cerebrovascular diseases such as brain dysfunction, cerebral thrombosis, cerebral infarction; and ischemic cardiovascular diseases such as angina pectoris, myocardial infarction, etc.
Qingtong (Edaravone injection)	29,051	33,043	2.3%	1.5%	An oxygen free radical scavenger widely used to treat cardiovascular and cerebrovascular diseases, as well as peripheral vascular disease (PDA) for people with diabetes.

During the Period, thanks to a young and diversified product portfolio, sales of CCV products grew 73.4% to RMB2,214.7 million, which accounted for 95.3% of the Group's total revenue, and again making CCV products the Group's largest revenue contributor.

The Group achieved significant improvement in sales of Kelinao and Oudimei, its two major exclusive products. In 2012, the Group raised the ex-factory price of Kelinao, which put pressure on its distributors and had a negative impact on sales of the product. During the Period, the Group stepped up its support to its distributors for academic promotion and deepened its penetration into third to fourth tier cities. The results were reflected by the sound sales growth of 32.1% of Kelinao compared to the last corresponding period.

As to Oudimei, the successful integration of its original distribution network resulted in strengthened sales and marketing efficiency for the product. The Group was able to deepen penetration in existing markets and expand into new markets by winning tenders at stable price levels in more provinces, and supplementary tender submissions in provinces where tenders were delayed. With these efforts, sales of Oudimei jumped up by 140.1% during the Period over the last corresponding period.

After stepping up academic promotion efforts, sales of the Group's two other exclusive products, Yuanzhijiu and Yeduojia, maintained rapid sales growth during the Period, with sales of the products jumped up by 120.8% and 560.9% to RMB202.0 million and RMB129.4 million, respectively. Sales of the Group's other promising products, namely Danshen Chuanxiongqin injection, Guhong injection and Yimaining, also grew significantly by 157.2%, 109.6% and 53.3% to RMB57.1 million, RMB151.2 million and RMB92.7 million, respectively. Meanwhile, the Group's established products recorded steady sales growth supported by deepened market penetration, especially into low-end markets. Sales of Chuanqing, Qu'Ao, Qingtong and GM1 grew 12.7%, 12.3%, 13.7% and 0.8% to RMB48.2 million, RMB45.8 million, RMB33.0 million and RMB96.8 million, respectively.

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

Sales of key Non-CCV products:

	Product Name	For the six months ended 30 June 2012 *(RMB'000)*	For the six months ended 30 June 2013 *(RMB'000)*	2012 H1 Contribution to Sales of Non-CCV Products	2013 H1 Contribution to Sales of Non-CCV Products	Product characteristics
Central nervous system drug	Ren'Ao (Oxcarbazepine)	6,597	6,325	6.4%	6.1%	New generation of antiepileptic drug with a broad spectrum that is highly effective and safe. It can be used as an alternative to carbamazepine.
Metabolism drug	Luoanming (Amino acid injection)	21,868	34,792	21.2%	33.6%	Used for hypoalbuminemia, inadequate protein intake or malabsorption, and protein synthesis obstacles.
Respiratory system drug	Bi'Ao (Ambroxol hydrochloride)	27,401	26,684	26.5%	25.8%	Clinical first-line expectorant phlegm drugs. Used for the expectorant treatment of acute chronic respiratory diseases. It is also a regular medication taken to prevent lung infections after surgery.
	Zhuo'Ao (Ambroxol hydrochloride)	6,450	7,858	6.2%	7.6%	
Anti-infective drug	Pojia (Sulbenicillin sodium)	17,387	13,739	16.8%	13.3%	Broad-spectrum penicillin with a broad antagonistic spectrum, strong antibacterial activity, low-levels of drug resistance, and which is safe and well-tolerated.

During the Period, increasingly fierce price competition in the Chinese market of non-exclusive products led to relatively lower sales volume of the Group's non-CCV products, which are predominantly non-exclusive drugs. Sales of Luoanming (a metabolism drug with exclusive formulation) increased by 59.1% to RMB34.8 million. Meanwhile, sales of the central nervous system product Ren'Ao (used primarily to treat epilepsy) declined 4.1% to RMB6.3 million. Zhuo'Ao and Bi'Ao (respiratory system drugs) increased by 21.8% and dropped by 2.6%, respectively, accounting for combined revenue of approximately RMB34.5 million. Sales of Pojia fell 21.0% to RMB13.7 million due to stricter restrictions on the clinical use of anti-infective drugs.

Roxatidine injection (the Group's first exclusive first-to-market generic drug, a digestive system drug) was launched in the second half of 2013, and is expected to be another important revenue contributor of its non-CCV product segment with more extensive marketing and after winning tenders in more provinces.

(iii) **Sales and Marketing**

a) **To expedite recovery of Kelinao and Oudimei:**

Enhancing academic promotion and incentives to distributors

The Group stepped up its academic promotion work during the Period. By doing so, the Group has been more and more effective in enhancing physicians' and specialists' knowledge and recognition of these products so as to boost clinical use. Also, the Group boosted incentives to distributors for Kelinao and Oudimei, to encourage more frequent interaction with physicians and hospitals and motivate distributors to promote the Group's products.

Increased tender wins

The Group also speeded up market expansion of Oudimei by provincial tender wins and supplementary tender submissions in provinces where tenders were delayed.

b) **Devising clear tenders strategies for different products:**

The Group employed different tender strategies to different products, depending on competitiveness of their markets and their level of maturity in different markets.

For products at earlier stages of development and are exclusive or have fewer competitors, including Yuanzhijiu, Yeoduojia, Danshen Chuanxiongqin injection etc, the Group expanded market coverage by provincial tender wins and supplementary tender submissions in provinces where tenders were delayed.

For non-exclusive products such as Qu'Ao, Chuanqing, Qingtong, the Group expanded their access to low-end markets with EDL ("Essential Drug List") tender wins and participation in the rural cooperative medical scheme.

(iv) **Research and Development ("R&D")**

Since Xuanzhu Pharma Co., Ltd. ("Xuanzhu Pharma", also known as "KBP BioSciences Co., Ltd.") becoming a wholly-owned subsidiary of the Group in 2012. Xuanzhu Pharma has continued in undertaking research and development in innovative drugs, with a focus on major therapeutic areas such as CCV, metabolism and oncology. Xuanzhu Pharma intensified efforts on projects that are in line with the Group's overall strategy and redeployed resources to the Group's areas of priority. As a result, the Group achieved a number of breakthroughs since the restructuring. To date, the Group has received Approval for Clinical Trials for a total of five Category 1 innovative drugs from the China State Food and Drug Administration ("CFDA"), a testimony to its industry-leading R&D capabilities.

- In January 2013, the Group received Approval for Clinical Trials for Benapenem (百納培南), a Category 1.1 innovative drug that has been patented in China and the United States. Phase I of clinical trials are set to begin in 2013. The product is a carbapenem drug, in a class of broad spectrum-lactam antibiotics which are often used to treat resistant bacteria in hospitals.

- In February 2013, the Group received Approval for Clinical Trials for Imigliptin Dihydrochloride (鹽酸依格列汀), a Category 1.1 innovative drug. The worldwide patent applications have been submitted. Phase I of clinical trials are set to begin in 2013. The product is a DPP-4 inhibitor class oral hypoglycemic agent, a drug with a brand new structure for treating type II diabetes.

- In July 2013, the Group received Approval for Clinical Trials for Anaprazole Sodium (安納拉唑鈉), a Category 1.1 innovative drug. Applications for patents have been submitted in China, the United States, Japan and Europe. Phase I of clinical trials are set to begin in 2014. Anaprazole Sodium is a new generation proton pump inhibitor (PPI) for treating gastrointestinal ulcers.

For the three innovative drug projects mentioned above, the Group has applied for major national awards, namely The National Key New Technological Projects of the Twelfth Five-year Plan (國家十二五科技重大專項新增項目) and The National Major Innovative Drug Projects (國家"重大新藥創制"科技重大專項).

In addition, L-Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category 1 innovative drug, and Cinepazide Mesilate (甲磺酸桂哌齊特), a Category IV exclusive new drug, which are in Phases III and II of clinical studies, respectively, are progressing as planned. The collaborative development project with NeuroVive, innovative CCV drugs CicloMulsion and Neurostat, are in progress as planned towards clinical trials. CicloMulsion is filing application for Approval for Clinical Trials in China.

The Group has also made good progress in the development of generic drugs. After gaining production licenses for Roxatidine Acetate Hydrochloride for Injection (注射用鹽酸羅沙替丁醋酸酯), a first-to-market exclusive generic drug for treating gastrointestinal ulcers, and Nalmefene Hydrochloride Injection (鹽酸納美芬注射液), a Category 3.1 generic drug and new generation opioid receptor inhibitor, the products successfully passed final inspections and were officially launched during the Period. Development of other Category 3.1 generic drugs in the pipeline such as Levetiracetam injection (左乙拉西坦注射液), Lacosamide (拉克醯胺), and Aprepitant (阿瑞吡坦) are also in progress as planned. Including these three drug development projects, the Group has a total of 17 Category 3.1 first-to-market generic drug projects under development. In addition, production license applications were filed for two other generic drugs during the Period and approvals from CFDA are expected to be issued by the end of 2013.

(v) **Production and Quality Management**

In spite of rising raw material and labour costs, the Group maintained cost efficiency in its production system through improved manufacturing process management.

In compliance with the new Good Manufacturing Practice ("GMP") standards, upgrades of the Group's production bases in Beijing, Jilin and Liaoning are approaching completion. The Group plans to apply for new GMP standard certification in September 2013.

Langfang Gaobo Jingband, the Group's Active Pharmacentical Ingredients ("**APIs**") production facility, established cooperation with the largest Canadian-owned pharmaceutical company Apotex Inc. during the Period. The production facility passed on-site inspection by the Food and Drug Administration ("FDA") of United States in July 2013. EIR from FDA is expected to be issued in the third quarter of 2013 representing FDA's approval of its GMP operation system that its products can be exported to the United States.

(II) FUTURE PROSPECTS

(i) Industry Outlook

In the second half of 2013, the development of the Chinese pharmaceutical market will continue to be driven by the expansion of national medical insurance coverage, the rising per capita subsidy standard for medical insurance and the increasing maximum reimbursements ratio for medical treatment, in addition to the accelerated pace of urbanization and China's ageing population. The Group believes that the pharmaceutical industry will remain one of the fastest-growing industries in the country.

Consolidation in the industry is intensifying due to medical reform, tightening control of hospital medical budget, spiraling price competition and the implementation of the new GMP standard. Nonetheless, these changes will benefit the Group comprising companies with strong R&D capabilities, a balanced product portfolio, distinguished sales and marketing capabilities, and an efficient production system, by being in a better position in grasping rising opportunities in the market.

(ii) Growth Strategies

a) Focusing on balancing revenue stream and building strong pipeline

Sihuan Pharmaceutical has the core advantage of possessing a young and diversified product portfolio, with all six key and potential blockbuster products being exclusive products, namely Kelinao, Anjieli, Oudimei, Yuanzhijiu, Yeduojia and Roxatidine, enjoying stable pricing. These exclusive products, coupled with over 10 products with exclusive formulations or dosages such as Metronidzole injection (甲硝唑凍幹注射劑), together with Nilestriol (尼爾雌醇) and Clindamycin (克林霉素), which have been included in the recently expanded national EDL; and with products such as Kelinao, Yuanzhijiu and Chuanqing recently added to the Guangdong EDL, is a prestigious product mix expected to sustain business growth for the Group in the coming five years.

The Group's long-term growth momentum will be supported by a variety of innovative patented drugs and first-to-market generic drugs under development. These products are expected to be launched starting from 2015.

b) **Maintaining outstanding sales and marketing capabilities**

The Group has industry-leading sales and marketing capabilities supported by its unique sales and marketing model, proven by the high speed of the Group's market expansion and strong resilience and competitive advantages, with which it has overcome changes and challenges in the industry. In order to strengthen its competitive advantages, the Group will continue to enhance its nationwide distribution network and sales and marketing capabilities in the future.

c) **Enriching product resources through R&D and product collaboration**

The Group has a strong track record of gaining new product resources through R&D, acquisitions and product collaboration, focusing on exclusive and proprietary products in major therapeutic areas. The Group will keep exploring such opportunities and enhancing its R&D capability by continuous investment to enrich its product pipeline in order to sustain healthy and sustainable growth.

(iii) **Outlook**

The Group's outstanding operational performance during the Period mirrored the successful implementation of its internal adjustments and integration in 2011-2012, its improved operational efficiency, its balanced revenue stream, and most importantly, the Group's adaptability to various challenges. The Group is confident that with its prestigious product pipeline, proven R&D capabilities and its sales and marketing capabilities, Sihuan Pharmaceutical is equipped with strong competitive advantages that will bring the Group to its next stage of development.

FINANCIAL REVIEW

Turnover

In the first six months of 2013, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. Total revenue increased by 67.3% from RMB1,389.3 million in the first six months of 2012 to RMB2,324.7 million in the first six months of 2013. The increase was mainly attributable to the sales growth of our CCV drugs and other drugs.

Revenue from sales of CCV drugs in the first six months of 2013 amounted to approximately RMB2,214.7 million, representing approximately 73.4% of growth over the first six months of 2012, which accounted for approximately 95.3% of the Group's turnover. The increase was primarily due to the broadened revenue base from a further diversified product portfolio, as a result of the Group's two-pronged sales and marketing strategy to boost both its established and promising products.

Due to the decreased sales of anti-infective drugs which faced stricter restrictions on their clinical use, revenue derived from anti-infective drugs decreased by approximately 43.0% from RMB32.4 million in the first six months of 2012 to RMB18.5 million in the first six months of 2013, accounting for approximately 0.8% of the Group's total revenue. In view of that, the Group focused on stepping up its efforts in the promotion of other drugs, such as central nervous system, respiratory and metabolism drugs. Revenue from sales of other drugs grew by approximately 19.6% to RMB84.9 million, accounting for approximately 3.7% of the Group's total revenue.

Cost of sales

The Group's cost of sales for the Period amounted to approximately RMB477.6 million, accounting for approximately 20.5% of the total revenue.

Gross profit

Our gross profit increased by 72.4% from RMB1,071.4 million in the first six months of 2012 to RMB1,847.1 million in the first six months of 2013. Overall gross profit margin increased to 79.5% in the first six months of 2013 from 77.1% in the first six months of 2012, which was mainly due to an increase in the contribution of products with higher gross profit margins.

Other gains - net

Other net gains decreased from RMB175.0 million in the first six months of 2012 to RMB147.2 million in the first six months of 2013. This was mainly due to a decrease in government grants for specific projects received by the Group and its donation increased during the Period.

Distribution costs

Distribution costs increased by 109.2% to RMB1,229.0 million in the first six months of 2013 as compared to the first six months of 2012. The increase mainly resulted from an increase in marketing and promotion expenses due to enhanced sales of the Group's products and an increase in expenses related to increased efforts in the academic promotion of promising products and the optimization of the distribution network.

Administrative expenses

Administrative expenses increased by 2.4% from RMB125.4 million in the first six months of 2012 to RMB128.4 million in the first six months of 2013. The increase was primarily due to an increase in the Group's investment in research and development.

Finance income - net

Net finance income decreased by 6.5% from RMB62.5 million in the first six months of 2012 to RMB58.4 million in the first six months of 2013. The decrease was mainly due to decreases in interest income received by the Group.

Profit before income tax

Based on the above factors, the Group's profit before income tax increased by 17.4% from RMB595.9 million in the first six months of 2012 to RMB699.5 million in the first six months of 2013.

Income tax expenses

Our income tax expense decreased by 34.2% from RMB120.6 million in the first six months of 2012 to RMB79.4 million in the first six months of 2013, mainly due to the new tax incentive treatment granted to a PRC subsidiary of the Group as a high-tech enterprise.

Profit for the Period

Based on the above factors, the Group's net profit increased by 30.5% from RMB475.2 million in the first six months of 2012 to RMB620.2 million in the first six months of 2013.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by 33.8% from RMB461.4 million in the first six months of 2012 to RMB617.5 million in the first six months of 2013.

Liquidity and financial resources

As at 30 June 2013, the Group's cash and cash equivalents amounted to RMB1,359.9 million (31 December 2012: RMB1,543.9 million); and term deposits with initial term of over three months amounted to RMB743.6 million (31 December 2012: RMB898.6 million); available-for-sale financial assets amounted to RMB438.5 million (31 December 2012: RMB717.9 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash as short-term investments in order to obtain better returns. Therefore, the 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 Period, the total investment principals of the members of the Group amounted to RMB436.0 million. The investments made by the Group according to these agreements were categorized as short-term investments, which mainly consist of purchase of financial planning products from certain state-owned banks and reputable international financial institutions outside of PRC. In terms of the above financial planning products, the issuing banks of such financial planning products can invest the Group's funds into financial instruments such as treasury bonds, discounted bank acceptances, commercial acceptance bills and bank deposits. The investment principals of RMB436.0 million plus interests of approximately RMB2.5 million amounted to approximately RMB438.5 million, which recognized as available-for-sale financial assets in the interim condensed consolidated balance sheet of the Group for as at 30 June 2013. As at the date of this announcement, sold/repaid total investment principals amounted to RMB301.0 million.

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

The Group has sufficient cash as at 30 June 2013. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 30 June 2013	**As at 31 December 2012**
	RMB'000	*RMB'000*
	Unaudited	Audited
Cash and cash equivalents	1,359,905	1,543,907
Less: Borrowings	(531,002)	(773,114)
	828,903	770,793

Trade and other receivables

The Group's trade receivables consist of the credit sales of its products to be paid by its distributors and bank acceptance bills due within half a year. Other receivables consist of prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables increased by RMB217.1 million from RMB923.3 million as at 31 December 2012 to RMB1,140.4 million as at 30 June 2013. The increase in trade and other receivables was mainly due to the increase in credit sales, and other receivables, along with the increase in sales.

Inventory

Inventory as at 30 June 2013 amounted to RMB129.8 million (inventory as at 31 December 2012: RMB91.5 million). In the first six months of 2013, the inventory turnover days was 42 days (the first six months of 2012: 36 days). We had no inventory impairments in the first six months of 2013.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 30 June 2012, the net book value of property, plant and equipment amounted to RMB1,339.1 million, representing an increase of RMB415.0 million, or approximately 44.9%, as compared with the previous year. The increase was mainly attributable to the expanding 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 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 and its own-developed R&D projects. As at 30 June 2013, net intangible assets amounted to RMB3,697.9 million (31 December 2012: RMB3,735.0 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and amounts due to Directors. As at 30 June 2013, trade and other payables amounted to RMB783.1 million, representing a decrease of RMB84.3 million as compared with 31 December 2012. The decrease was mainly due to the payment of payables for the previous year in the first six months of 2013.

Contingent liabilities and guarantees

As at 30 June 2013, the Group had no material contingent liabilities or guarantees (31 December 2012: nil).

Off-balance sheet commitments and arrangements

As at 30 June 2013, apart from the contingent liabilities, 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 that engage in the provision of leasing, hedging or research and development services to the Group.

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 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 its bank deposits in large PRC state-owned banks without significant credit risks. We manage the credit risk of cash outside the PRC by placing its 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, the Group invests in 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.

The Group also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates 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 Group and its subsidiaries. All of the revenues of the Group are derived from operations in the PRC. 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 30 June 2013, the equivalent of approximately RMB278.81 million and RMB183.27 million of the Group's outstanding borrowings were denominated in Hong Kong Dollar and US Dollar, of which the foreign exchange risk has been set off with steadily appreciation of RMB against Hong Kong Dollar over years.

For the year ended 30 June 2013, 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 the purchase of property, plant and equipment, land use rights and intangible assets. In the first six months of 2013, our capital expenditures amounted to RMB665.5 million, of which RMB435.9 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets increased by RMB215.4 million, and the remaining RMB14.2 million was spent on land use rights.

Human Resources and Remuneration of Employees

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 them to work towards enhancing the value of the Company and promoting the long-term growth of the Company.

As at 30 June 2013, the Group had 2,414 employees. For the year ended 30 June 2013, total salary and related costs of the Group was approximately RMB76.7 million (the first six months of 2012: RMB56.7 million).

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 of the Rules Governing the the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the six months ended 30 June 2013, the Company has complied at all times with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and one of which should have appropriate professional qualifications or accounting or related financial management expertise.

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 interim results of the Group for the Period have been reviewed by the Audit Committee.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Company's interim condensed consolidated financial information for the six months ended 30 June 2013. Messrs. PricewaterhouseCoopers, the Company's external auditors, have also reviewed the Company's interim condensed consolidated financial information for the six months ended 30 June 2013, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

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 six months ended 30 June 2013.

INFORMATION FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB4.3 cents per share (2012: RMB3.1 cents) for the six months ended 30 June 2013.

The interim dividend will be payable on or around 27 September 2013 to shareholders whose names appear on the register of members of the Company at the close of business on 13 September 2013.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF INTERIM DIVIDEND

The register of members of the Company will be closed from 10 September 2013 to 13 September 2013, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 9 September 2013.

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013 ON THE STOCK EXCHANGE'S WEBSITE

This announcement of interim results for the six months ended 30 June 2013 is published on the websites of the Stock Exchange at http://www.hkexnews.hk and of the Company at http://www.sihuanpharm.com.

PUBLICATION OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

The interim report of the Company for the six months ended 30 June 2013 will be dispatched to shareholders of the Company and available on the websites of the Company (http://www.sihuanpharm.com) and the Stock Exchange (http://www.hkexnews.hk) in due course.

Shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or via email at sihuan.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

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

Hong Kong, 26 August 2013

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