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 2013

| | Year ended 31 December 2013 RMB '000 | 2012 RMB '000 | Change |
|---|---|---|---|
| **Key Income Statement Items** | | | |
| Revenue | 4,732,700 | 3,042,531 | 55.6% |
| Gross profit | 3,699,714 | 2,289,415 | 61.6% |
| Operating profit | 1,462,082 | 1,047,755 | 39.5% |
| Profit attributable to owners of the Company | 1,303,012 | 904,402 | 44.1% |
| **Key Financial Ratios** | | | |
| Gross profit margin | 78.2% | 75.2% | |
| Net profit margin | 27.5% | 29.7% | |
| Earnings per share — Basic (RMB cents) | 25.18 | 17.48 | |
| Receivable Turnover (days) | 56 | 58 | |
| Inventory Turnover (days) | 34 | 36 | |
| Proposed final cash dividend per share (RMB cents) | 2.1 | 5.8 | |

## 2013 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 55.6% to RMB4,732.7 million in 2013 from RMB3,042.5 million.
- Profit attributable to owners of the Company increased by 44.1% to RMB1,303.0 million in 2013.
- Basic earnings per share increased by approximately 44.1% over 2012 to approximately RMB25.18 cents in 2013.
- A final cash dividend of RMB2.1 cents per share was recommended by the Board together with a bonus issue of 1 bonus ordinary share at par value of HK$0.01 each for every 1 existing ordinary share in return for shareholders' support and are subject to the approval of the shareholders at the annual general meeting of the Company to be held on 30 May 2014.

The board (the "Board") of directors (the "Directors") of Sihuan Pharmaceutical Holdings Group Ltd. ("Sihuan Pharmaceutical" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 (the "Year") together with the comparative figures for the previous year as follows:

## CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|---|---|---|
| | | **2013** | **2012** |
| | *Note* | *RMB'000* | *RMB'000* |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 1,441,677 | 924,052 |
| Investment properties | | 34,437 | 30,894 |
| Intangible assets | 4 | 2,880,622 | 3,735,030 |
| Land use rights | | 337,998 | 165,637 |
| Trade and other receivables | 5 | — | 154,192 |
| Investment accounted for using the equity method | | 34,069 | 40,962 |
| Deferred income tax assets | | 119,939 | 265,176 |
| Other non-current assets | | — | 122,521 |
| | | 4,848,742 | 5,438,464 |
| **Current assets** | | | |
| Inventories | | 101,283 | 91,472 |
| Trade and other receivables | 5 | 1,398,041 | 769,120 |
| Available-for-sale financial assets | 6 | 776,074 | 717,921 |
| Term deposits with initial term of over three months | | 233,651 | 898,560 |
| Cash and cash equivalents | | 1,508,076 | 1,543,907 |
| | | 4,017,125 | 4,020,980 |
| Assets of disposal group classified as held for sale | | 1,145,781 | — |
| | | 5,162,906 | 4,020,980 |
| **Total assets** | | 10,011,648 | 9,459,444 |

| | Note | As at 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 7 | 44,419 | 44,419 |
| Share premium | 7 | 5,573,951 | 5,573,951 |
| Other reserves | | 89,329 | 65,256 |
| Retained earnings | | | |
| — Proposed final dividends | 16 | 108,824 | 300,151 |
| — Others | | 2,065,782 | 1,100,551 |
| | | 7,882,305 | 7,084,328 |
| **Non-controlling interests** | | 115,485 | 102,927 |
| **Total equity** | | 7,997,790 | 7,187,255 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | 140,862 | 208,532 |
| Other non-current liabilities | 9 | 63,227 | 207,407 |
| Borrowings | 8 | 5,880 | 5,880 |
| | | 209,969 | 421,819 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 1,253,107 | 867,368 |
| Borrowings | 8 | 180,800 | 767,234 |
| Current income tax liabilities | | 129,770 | 215,768 |
| | | 1,563,677 | 1,850,370 |
| Liabilities of disposal group classified as held for sale | | 240,212 | — |
| | | 1,803,889 | 1,850,370 |
| **Total liabilities** | | 2,013,858 | 2,272,189 |
| **Total equity and liabilities** | | 10,011,648 | 9,459,444 |
| **Net current assets** | | 3,359,017 | 2,170,610 |
| **Total assets less current liabilities** | | 8,207,759 | 7,609,074 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2013** | **2012** |
| | *Note* | *RMB'000* | *RMB'000* |
| Revenue | 11 | 4,732,700 | 3,042,531 |
| Cost of sales | 12 | (1,032,986) | (753,116) |
| **Gross profit** | | 3,699,714 | 2,289,415 |
| Other income | 11 | 19,720 | 5,825 |
| Other gains — net | 11 | 399,006 | 271,406 |
| Distribution costs | 12 | (2,329,531) | (1,312,251) |
| Administrative expenses | 12 | (326,827) | (206,640) |
| **Operating profit** | | 1,462,082 | 1,047,755 |
| Finance income | 13 | 120,887 | 131,456 |
| Finance expenses | 13 | (8,625) | (7,323) |
| Finance income — net | | 112,262 | 124,133 |
| Share of loss of investment accounted for using the equity method | | (6,830) | (6,347) |
| Loss on dilution of interest in associate | | (63) | — |
| **Profit before income tax** | | 1,567,451 | 1,165,541 |
| Income tax expense | 14 | (257,368) | (243,999) |
| **Profit for the year** | | 1,310,083 | 921,542 |
| **Profit attributable to:** | | | |
| Owners of the Company | | 1,303,012 | 904,402 |
| Non-controlling interests | | 7,071 | 17,140 |
| | | 1,310,083 | 921,542 |

| | Note | Year ended 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Earnings per share attributable to owners of the Company during the year (expressed in RMB cents per share)** | | | |
| — Basic and diluted earnings per share | 15 | 25.18 | 17.48 |
| **Profit for the year** | | 1,310,083 | 921,542 |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Disposal of available-for-sale financial assets | 6 | (1,021) | (1,635) |
| Change in value of available-for-sale financial assets | 6 | 2,074 | 1,021 |
| **Total comprehensive income for the year** | | 1,311,136 | 920,928 |
| Attributable to: | | | |
| Owners of the Company | | 1,304,065 | 903,788 |
| Non-controlling interests | | 7,071 | 17,140 |
| **Total comprehensive income for the year** | | 1,311,136 | 920,928 |
| Dividends | | 108,824 | 460,577 |

## 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 2012** | 44,419 | 5,573,951 | 153,485 | 1,173,679 | 6,945,534 | 48,409 | 6,993,943 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | 904,402 | 904,402 | 17,140 | 921,542 |
| **Other comprehensive income** | | | | | | | |
| Disposal of available-for sale financial assets | — | — | (1,635) | — | (1,635) | — | (1,635) |
| Change in value of available-for-sale financial assets | — | — | 1,021 | — | 1,021 | — | 1,021 |
| Total other comprehensive income, net of tax | — | — | (614) | — | (614) | — | (614) |
| **Total comprehensive income** | — | — | (614) | 904,402 | 903,788 | 17,140 | 920,928 |
| **Total contribution by and distributions to owners of the Company recognised directly in equity** | | | | | | | |
| Employees share award scheme: - value of employee service | — | — | 7,678 | — | 7,678 | — | 7,678 |
| Dividends | — | — | — | (662,404) | (662,404) | — | (662,404) |
| Transfer to PRC statutory reserve fund | — | — | 15,475 | (15,475) | — | — | — |
| **Total contributions by and distributions to owners of the Company** | — | — | 23,153 | (667,879) | (654,726) | — | (654,726) |
| Non-controlling interests arising on a newly established subsidiary | — | — | — | — | — | 4,310 | 4,310 |
| Changes in ownership interests in a subsidiary without change of control | — | — | (110,268) | — | (110,268) | 33,068 | (77,200) |
| Deregistration of a subsidiary | — | — | (500) | 500 | — | — | — |
| **Total transaction with owners** | — | — | (87,615) | (677,379) | (764,994) | 37,378 | (727,616) |
| **Balance as at 31 December 2012** | 44,419 | 5,573,951 | 65,256 | 1,400,702 | 7,084,328 | 102,927 | 7,187,255 |

| | 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 2013** | 44,419 | 5,573,951 | 65,256 | 1,400,702 | 7,084,328 | 102,927 | 7,187,255 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | 1,303,012 | 1,303,012 | 7,071 | 1,310,083 |
| **Other comprehensive income** | | | | | | | |
| Disposal of available-for-sale financial assets | — | — | (1,021) | — | (1,021) | — | (1,021) |
| Change in value of available-for-sale financial assets | — | — | 2,074 | — | 2,074 | — | 2,074 |
| Total other comprehensive income, net of tax | — | — | 1,053 | — | 1,053 | — | 1,053 |
| **Total comprehensive income** | — | — | 1,053 | 1,303,012 | 1,304,065 | 7,071 | 1,311,136 |
| **Total contribution by and distributions to owners of the Company recognized directly in equity** | | | | | | | |
| Employees share award scheme: | | | | | | | |
| - value of employee service | — | — | 16,589 | — | 16,589 | — | 16,589 |
| Dividends | — | — | — | (522,677) | (522,677) | — | (522,677) |
| Transfer to PRC statuary reserve fund | — | — | 6,431 | (6,431) | — | — | — |
| **Total contribution by and distributions to owners of the Company** | — | — | 23,020 | (529,108) | (506,088) | — | (506,088) |
| Non-controlling interests arising on newly established subsidiaries | — | — | — | — | — | 5,487 | 5,487 |
| **Total transaction with owners** | — | — | 23,020 | (529,108) | (506,088) | 5,487 | (500,601) |
| **Balance as at 31 December 2013** | 44,419 | 5,573,951 | 89,329 | 2,174,606 | 7,882,305 | 115,485 | 7,997,790 |

## CONSOLIDATED STATEMENT OF CASH FLOW

| | Year ended 31 December 2013 *RMB'000* | 2012 *RMB'000* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operations | 1,800,618 | 1,283,628 |
| Income tax paid | (289,985) | (237,564) |
| **Net cash generated from operating activities** | 1,510,633 | 1,046,064 |
| **Cash flows from investing activities** | | |
| Payment for acquisition of subsidiaries in prior years | (20,000) | (1,180,000) |
| Acquisition of an associate | — | (47,309) |
| Acquisition of additional interest of a subsidiary | — | (77,200) |
| Proceeds from disposal of property, plant and equipment | 1,488 | 4,098 |
| Proceeds from disposal of intangible assets | 1,415 | 22,787 |
| Decrease/(Increase) of term deposits with initial term of over three months | 664,909 | (898,560) |
| Purchase of available-for-sale financial assets | (774,000) | (716,900) |
| Proceeds from disposal of held-to-maturity financial assets | — | 36,393 |
| Purchase of property, plant and equipment | (846,125) | (529,229) |
| Purchase of intangible assets | (234,498) | (185,420) |
| Acquisition of land use rights | (87,955) | (80,655) |
| Prepayment for acquisition of land use rights | — | (24,853) |
| Proceeds from disposal of available-for-sale financial assets | 716,900 | 788,919 |
| Cash and cash equivalents transferred to disposal group classified as held for sale | (7,351) | — |
| Interest received | 87,349 | 123,838 |
| **Net cash used in investing activities** | (497,868) | (2,764,091) |
| **Cash flows from financing activities** | | |
| Repayment of borrowings | (704,148) | — |
| Proceeds from borrowings | 180,800 | 767,234 |
| Non-controlling interests arising on establishing new subsidiaries | 5,487 | 4,310 |
| Dividends paid | (522,677) | (662,404) |
| Interest paid | (8,058) | (360) |
| **Net cash (used in)/generated from financing activities** | (1,048,596) | 108,780 |
| **Net decrease in cash and cash equivalents** | (35,831) | (1,609,247) |
| Cash and cash equivalents at beginning of year | 1,543,907 | 3,153,154 |
| **Cash and cash equivalents at end of year** | 1,508,076 | 1,543,907 |

*Notes:*

## 1. GENERAL INFORMATION

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

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

The 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 21/F, Building 2, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 10025, P.R.C.

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

These consolidated financial statements are presented in units of Renminbi ("RMB") thousand Yuan, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2014.

## 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.

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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013, are currently relevant and have no material impact on the Group's consolidated financial statements.

- Amendment to IAS 1, ’Financial statement 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).

- 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.

- IAS 28 (Revised) ‘Associates and joint ventures’ includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- IFRS 12 ‘Disclosures of interests in other entities’ includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- 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, which are largely aligned between IFRSs and US GAAP, 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.

- Annual improvement 2012 — Amendment to IFRS 13, ‘Fair value measurement’. This amendment is a clarification that there is no change in measurement requirements for short-term receivables and payable when the effect of not discounting is immaterial.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements.

- IAS 32 (Amendment) ‘Financial instruments: Presentation’ on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014

- Amendments to IFRS 10, 12 and IAS 27 on ‘Consolidation for investment entities’ is effective for annual periods beginning on or after 1 January 2014

- IAS 36 (Amendment) ’Impairment of assets’ on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014

- IAS 39 (Amendment) ‘Financial Instruments: Recognition and Measurement’ - novation of derivatives is effective for annual periods beginning on or after 1 January 2014

- IFRIC 21 'Levies' is effective for annual periods beginning on or after 1 January 2014

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

- Annual improvements 2012 is effective for annual periods beginning on or after 1 January 2014

- Annual improvements 2013 is effective for annual periods beginning on or after 1 January 2014

- IFRS 9 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2015

Management does not anticipate that the application of the new standards and amendments will result in a material impact on the Group's consolidated financial statements.

## 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 research and development, manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2013, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2012: none).

## 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 (a)* | *RMB'000* |
| **At 1 January 2012** | | | | | | |
| 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 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 2,608,845 | 27,571 | 315,865 | 109,648 | 18,218 | 3,080,147 |
| Addition | — | 351,990 | — | 18,212 | 218 | 370,420 |
| Transfer | — | — | 100 | (100) | — | — |
| Disposal | — | — | — | (5,745) | (37) | (5,782) |
| Adjustment on partial disposal of a subsidiary in 2011 | 98,590 | — | — | — | — | 98,590 |
| Transfer to disposal group classified as held for sale | — | — | 291,857 | — | — | 291,857 |
| Impairment charge | — | — | — | (12,502) | — | (12,502) |
| Amortisation charge | — | (46,095) | (38,575) | — | (3,030) | (87,700) |
| **Closing net book amount** | 2,707,435 | 333,466 | 569,247 | 109,513 | 15,369 | 3,735,030 |
| **At 31 December 2012** | | | | | | |
| Cost | 2,744,495 | 406,931 | 727,837 | 191,171 | 22,354 | 4,092,788 |
| Accumulated amortization | — | (73,465) | (157,527) | — | (6,985) | (237,977) |
| Impairment | (37,060) | — | (1,063) | (81,658) | — | (119,781) |
| **Net book amount** | 2,707,435 | 333,466 | 569,247 | 109,513 | 15,369 | 3,735,030 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | 2,707,435 | 333,466 | 569,247 | 109,513 | 15,369 | 3,735,030 |
| Additions | — | 27,001 | — | 22,314 | 183 | 49,498 |
| Transfer | — | — | 2,700 | (2,700) | — | — |
| Disposal | — | — | — | (1,307) | (3) | (1,310) |
| Transfer to disposal group classified as held for sale | (480,499) | — | (271,729) | — | (8) | (752,236) |
| Impairment charge | — | — | — | (6,979) | — | (6,979) |
| Amortisation charge | — | (88,693) | (51,638) | — | (3,050) | (143,381) |
| **Closing net book amount** | 2,226,936 | 271,774 | 248,580 | 120,841 | 12,491 | 2,880,622 |
| **At 31 December 2013** | | | | | | |
| Cost | 2,263,996 | 433,932 | 428,616 | 209,478 | 22,521 | 3,358,543 |
| Accumulated amortisation | — | (162,158) | (178,973) | — | (10,030) | (351,161) |
| Impairment | (37,060) | — | (1,063) | (88,637) | — | (126,760) |
| **Net book amount** | 2,226,936 | 271,774 | 248,580 | 120,841 | 12,491 | 2,880,622 |

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

## 5. TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Trade receivables — third parties | 867,716 | 599,582 |
| Amount receivable from partial disposal of Jilin Sichang Pharmaceutical Co., Ltd ("Jilin Sichang") | 165,572 | 154,192 |
| Prepaid value added tax | 103,554 | 20,409 |
| Prepayments to suppliers | 96,544 | 69,426 |
| Prepaid income tax | 91,944 | — |
| Other receivables | 72,711 | 79,703 |
| | 1,398,041 | 923,312 |
| Less: non current portion | | |
| Amount receivable from partial disposal of Jilin Sichang | — | 154,192 |
| Current portion | 1,398,041 | 769,120 |

The Group's credit terms granted to customers range 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 | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Within 3 months | 632,298 | 563,994 |
| 3 to 6 months | 105,537 | 32,607 |
| 6 months to 1 year | 129,420 | 2,666 |
| More than 1 year | 461 | 315 |
| | 867,716 | 599,582 |

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| **At 1 January** | 717,921 | 780,135 |
| Additions | 774,000 | 716,900 |
| Disposals | (717,921) | (780,135) |
| Net gain from change in fair value of available-for-sale financial assets | 2,074 | 1,021 |
| **At 31 December** | 776,074 | 717,921 |

Available-for-sale financial assets include the following:

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Short-term investments | 776,074 | 717,921 |

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

The fair values of these investments are based on average estimated return rate of 4.94% (2012: 3.69%).

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

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

## 7. SHARE CAPITAL AND SHARE PREMIUM

| | Number of authorised ordinary shares | Number of issued and fully paid ordinary shares | Share capital | Share premium | Total |
|---|---|---|---|---|---|
| | *'000* | *'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2012 (HK$0.01 per share) | 10,000,000 | 5,175,024 | 44,419 | 5,573,951 | 5,618,370 |
| As at 31 December 2013 (HK$0.01 per share) | 10,000,000 | 5,175,024 | 44,419 | 5,573,951 | 5,618,370 |

## 8. BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Non-current | | |
| - Other loans (a) | 5,880 | 5,880 |
| Current | | |
| - Bank borrowings (b) | 180,800 | 704,148 |
| - Other loans | — | 63,086 |
| | 186,680 | 773,114 |

(a) These amounts mainly comprised the borrowings from Langfang Gaobo Jingband Pharmaceutical Co., Ltd. ("Langfang Gaobo Jingband")'s non-controlling interest, which bear effective interest rate of 6.40% as at 31 December 2013 (31 December 2012: 6.91%) and will be repaid in 2015.

(b) Bank borrowings of RMB180,800,000 as at 31 December 2013 (2012: RMB209,301,000) were guaranteed by the Company without pledge. Bank borrowings of RMB nil as at 31 December 2013 (2012: RMB494,847,000) were unsecured borrowings.

At 31 December 2013, the Group's borrowings were repayable as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | Bank borrowings | | Others loans | |
| | 2013 | 2012 | 2013 | 2012 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 180,800 | 704,148 | — | 63,086 |
| Between 1 and 2 year | — | — | — | — |
| Between 2 and 5 years | — | — | 5,880 | 5,880 |
| | 180,800 | 704,148 | 5,880 | 68,966 |

The borrowings bear average interest rate of 1.02% (2012: 2.08%) annually.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

| | As at 31 December | |
|---|---|---|
| | 2013 | 2012 |
| | *RMB'000* | *RMB'000* |
| 6 months or less | 186,680 | 773,114 |

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

## 9. OTHER NON-CURRENT LIABILITIES

| | Group As at 31 December | |
|---|---|---|
| | 2013 | 2012 |
| | *RMB'000* | *RMB'000* |
| Deferred gain on partial disposal of Jilin Sichang | — | 193,590 |
| Deferred revenue for sales of distribution right | 63,227 | 13,817 |
| | 63,227 | 207,407 |

## 10. TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Trade payables | 36,555 | 36,207 |
| Accrued marketing service fee | 395,335 | 329,923 |
| Advances from customers | 229,969 | 88,668 |
| Deferred gain on partial disposal of Jilin Sichang | 193,590 | — |
| Value added tax payables | 139,682 | 16,071 |
| Deposit payables | 74,664 | 73,434 |
| Accrued performance bonus to directors | 51,200 | 4,800 |
| Amount payable regarding land use right | 47,970 | — |
| Advance of compensation from government for demolition of existing premise | 36,638 | 30,000 |
| Payable of purchase of customer relationship | — | 185,000 |
| Amount payables due to the acquisition of subsidiaries | — | 20,000 |
| Other payables | 47,504 | 83,265 |
| | 1,253,107 | 867,368 |

The fair values of trade and other payable approximate their carrying amounts.

The ageing analysis of the trade payables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Within 6 months | 29,287 | 30,078 |
| 6 months to 1 year | 1,203 | 711 |
| More than 1 year | 6,065 | 5,418 |
| | 36,555 | 36,207 |

Amount payables due to the purchase of inventory not yet paid and were expected to be paid within 12 months.

## 11. REVENUE, OTHER INCOME AND OTHER GAINS — NET

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| **Revenue:** | | |
| Sales of pharmaceutical products | 4,732,700 | 3,042,531 |
| **Other income:** | | |
| Sale of distribution right | 16,641 | 3,454 |
| Rental income | 3,079 | 2,371 |
| | 19,720 | 5,825 |
| **Other gains — net:** | | |
| Government grants | 407,408 | 260,472 |
| Processing fee income | 2,747 | 2,742 |
| Gain on disposal of available-for-sale financial assets | 1,021 | 10,419 |
| Gain on disposal of intangible assets | 105 | 14,590 |
| Donation | (8,263) | (2,163) |
| Others | (4,012) | (14,654) |
| | 399,006 | 271,406 |

## 12. EXPENSES BY NATURE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Research and development costs | | |
| Research expenses | 31,990 | 15,379 |
| Amortisation of deferred development costs (Note 4) | 51,638 | 38,575 |
| | 83,628 | 53,954 |
| Marketing and promotion expenses | 2,046,769 | 1,209,945 |
| Raw materials used | 742,578 | 561,675 |
| Employee benefit expenses | 240,465 | 122,679 |
| Amortisation of intangible assets excluding the amortisation of deferred development costs (Note 4) | 91,743 | 49,125 |
| Business tax and surcharges | 76,654 | 47,267 |
| Office expenses | 71,438 | 32,947 |
| Transportation expenses | 56,506 | 17,278 |
| Travelling expenses | 44,987 | 22,307 |
| Depreciation of property, plant and equipment | 42,725 | 39,789 |
| Changes in inventories of finished goods and work in progress | 22,067 | 25,501 |
| Entertainment expenses | 21,331 | 5,343 |
| Advertising expenses | 18,348 | 7,810 |
| Operating lease payments | 16,096 | 3,410 |
| Professional services expense | 13,184 | 13,384 |
| Amortisation of land use rights | 8,115 | 3,930 |
| Impairment of intangible assets (Note 4) | 6,979 | 12,502 |
| Auditors' remuneration | 3,565 | 3,350 |
| Depreciation of investment properties | 1,639 | 809 |
| Others | 80,527 | 39,002 |
| **Total cost of sales, distribution costs and administrative expenses** | 3,689,344 | 2,272,007 |

## 13. FINANCE INCOME AND EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Bank charges | (567) | (340) |
| Interest expense | (8,058) | (6,983) |
| Finance expenses | (8,625) | (7,323) |
| Exchange gain | 23,179 | 4,618 |
| Interest income | 97,708 | 126,838 |
| Finance income | 120,887 | 131,456 |
| **Net finance income** | 112,262 | 124,133 |

## 14. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Current tax | 89,610 | 419,986 |
| Deferred tax | 167,758 | (175,987) |
| **Income tax expense** | 257,368 | 243,999 |

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2013 (2012: 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 | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| **Profit before tax** | 1,567,451 | 1,165,541 |
| Tax calculated at the PRC statutory tax rate of 25% (2012:25%) | 391,863 | 291,385 |
| Tax effects of: | | |
| — Withholding tax on the earnings expected to be remitted by subsidiaries | 33,000 | 32,000 |
| — Income not subjected to tax | — | (5,609) |
| — Utilisation of previously unrecognised tax losses | (4,482) | (24,708) |
| — Effect of tax reduction and exemption | (131,157) | (56,123) |
| — Reversal of over provision | (122,751) | — |
| — Effect on change of effective tax rate to differed tax | 81,597 | — |
| — Expenses not deductible for tax purposes | 5,693 | 4,687 |
| — Tax losses for which no deferred income tax asset was recognised | 3,605 | 2,367 |
| **Income tax expense** | 257,368 | 243,999 |

## 15. EARNINGS PER SHARE

### (a) Basic

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| Profit attributable to owners of the Company *(RMB'000)* | 1,303,012 | 904,402 |
| 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)* | 25.18 | 17.48 |

### (b) Diluted

There is no dilution to earnings per share during 2013 and 2012 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

## 16. DIVIDENDS

The dividends paid in 2013 and 2012 were RMB522,677,000 and RMB662,404,000 respectively. Final cash dividend in respect of the year ended 31 December 2013 of RMB108,824,000 was recommended by the Board together with a bonus issue of 1 bonus ordinary share at par value of HK$0.01 each for every 1 existing ordinary share. Such dividend is to be proposed at the annual general meeting on 30 May 2014. These financial statements do not reflect this final dividend.

## 17. COMMITMENTS

### (a) Capital commitments

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

| | As at 31 December | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| Property, plant and equipment | 310,748 | 476,810 |
| Intangible assets — product development in progress | 20,481 | 19,003 |
| | 331,229 | 495,813 |

### (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 | |
|---|---|---|
| | **2013** | **2012** |
| | *RMB'000* | *RMB'000* |
| No later than 1 year | 5,333 | 780 |
| Later than 1 year and no later than 2 years | 900 | 860 |
| Later than 2 years | 1,200 | 2,100 |
| | 7,433 | 3,740 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### (I) Business Review

The successful internal integration in 2012 following previous expansion strengthened Sihuan Pharmaceutical's core competitiveness on the whole and returned the Company to its rapid growth trajectory in 2013. These were reflected in the outstanding financial performance and operational development achieved in the Year, which delivered a more diversified and balanced revenue stream and reinforced our market leadership. Sihuan Pharmaceutical also made breakthroughs in its R&D, adding more drugs with distinctive attributes and high growth potential to its product pipeline. In addition, the Group completed the construction of its main production and R&D base in Tongzhou, Beijing and the upgrade of all its other production bases.

In 2013, the Group not only achieved a sharp sales rebound for its two key products, Kelinao and Oudimei(1), but also recorded rapid growth of its fast-growing promising products such as Yuanzhijiu(2), Yeduojia, and Danshen Chuangxionqin. As a result, the Group's revenue surged 55.6% to RMB4,732.7 million, while profit attributable to owners of the Company jumped 44.1% to RMB1,303.0 million.

As a result of the above achievements, the Group kept its lead in China's cardio-cerebral vascular ("CCV") prescription drug market by growing its market share in terms of hospital purchase to 9.3%, and further enhanced its position in the China prescription drug market, making the Group the fourth largest pharmaceutical company in the Chinese hospital market in terms of hospital purchases during the year under review. (Source: IMS Heath Incorporated ("IMS")).

(1) Names of the Group's cattle encephalon glysoside and ignotin injection products in different dosages are Oudimei, Oufutai and Waitong, collectively known as Oudimei.

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

(i) **CCV Products**

Sales of key CCV products:

| Product | For the year ended 31 December 2012 *(RMB'000)* | For the year ended 31 December 2013 *(RMB'000)* | Change | 2013 Contribution to Sales of CCV Products | Product characteristics |
|---|---|---|---|---|---|
| Oudimei (Cattle encephalon glycoside and ignotin injection) | 696,067 | 1,343,922 | 93.1% | 29.8% | 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. |
| Kelinao (Cinepazide maleate injection) (80 mg) | 649,636 | 1,115,331 | 71.7% | 24.8% | 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) | 123,360 | 170,327 | 38.1% | 3.8% | |
| Yuanzhijiu (Troxerutin and cerebropropteinhydrolysate injection) | 361,213 | 432,468 | 19.7% | 9.6% | For the treatment of cardio-cerebral vascular diseases. |
| GM1 (Monosialotetrahexosylganglioside sodium injection) | 217,098 | 219,827 | 1.3% | 4.9% | For neural tissue cells protection and repairing agents; for treatment of traumatic brain injuries, cerebral vascular accidents and Parkinson's disease. |
| Guhong (Compound of aceglutamide and safflower extract) | 205,475 | 328,451 | 59.8% | 7.3% | 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, and memory impairment. |
| Yimaining (Alprostadil lipid emulsion injection) | 125,902 | 195,062 | 54.9% | 4.3% | 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 and kidney disease. |

| Product | For the year ended 31 December 2012 (RMB'000) | 2013 (RMB'000) | Change | 2013 Contribution to Sales of CCV Products | Product characteristics |
|---|---|---|---|---|---|
| Chuanqing (Ligustrazine hydrochloride for injection) | 93,010 | 97,609 | 4.9% | 2.2% | Widely used to treat ischemic cerebrovascular disease, coronary heart disease, cerebral embolism, vasculitis and vascular dementia. |
| Qu'Ao (Cerebroprotein hydrolysate) | 92,485 | 103,555 | 12.0% | 2.3% | 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 and Alzheimer's disease. |
| Yeduojia (Compound trivitamin B for injection (II)) | 73,531 | 239,485 | 225.7% | 5.3% | 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, nutritional anemia. |
| Danshen Chuanxiongqin (Salviaemiltiorrhizae and ligustrazine hydrochloride injection) | 73,121 | 134,489 | 83.9% | 3.0% | 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) | 67,019 | 75,794 | 13.1% | 1.7% | An oxygen free radical scavenger widely used to treat cardiovascular and cerebrovascular diseases, as well as peripheral vascular disease (PDA) for people with diabetes. |

In 2013, sales of CCV products grew 60.7% to RMB4,505.0 million, which accounted for 95.2% of the Group's total revenue, continuing to be the Group's largest revenue contributor. The significant growth was mainly attributable to the exciting rebound in sales for its two key products, Kelinao and Oudimei, and the rapid growth of its promising products.

After experiencing a short-term impact from the higher ex-factory price of Kelinao and the alignment of the product's distribution channels in 2012, the Group started to see positive results from an improved distribution system in 2013. This, together with reinforced support to distributors for academic promotion and the deepened penetration into low-end markets, boosted sales of Kelinao by 71.7% to RMB1,115.3 million.

As for Oudimei, the successful integration of its distribution network boosted its sales and marketing efficiency. The Group was able to deepen penetration into existing markets and expand into new markets by winning tenders or supplementary tender submissions at stable price levels in more provinces. As a result, sales of Oudimei jumped 93.1% to RMB1,343.9 million during the Year under review.

Promising products such as Yeoduojia, Danshen Chuanxiongqin, Guhong, Yimaining and Yuanzhijiu maintained strong growth in sales, which were up significantly by 225.7%, 83.9%, 59.8%, 54.9% and 19.7% to RMB239.5 million, RMB134.5 million, RMB328.5 million, RMB195.1 million and RMB432.5 million, respectively. Sales volume of Yuanzhijiu grew over 80%. Its slower growth in sales revenue was due to the adjustment of product strategy.

The Group's established products achieved steady growth. Sales of Qu'Ao, Qingtong, Chuangqing and GM1 grew 12.0%, 13.1%, 4.9% and 1.3% to RMB103.6 million, RMB75.8 million, RMB97.6 million and RMB219.8 million, respectively. The Group's share in the Chinese CCV prescription drug market share rose to approximately 9.3%, marking another record high.

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

Sales of key Non-CCV products:

| Therapeutic area | Product | For the year ended 31 December 2012 (RMB'000) | 2013 (RMB'000) | Change | 2013 Contribution to Sales of Non-CCV Products | Product characteristics |
|---|---|---|---|---|---|---|
| Central nervous system drug | Ren'Ao (Oxcarbazepine) | 13,675 | 14,616 | 6.9% | 6.4% | 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) | 58,205 | 72,910 | 25.3% | 32.0% | Used for hypoalbuminemia, inadequate protein intake or malabsorption, and protein synthesis obstacles. |
| Respiratory system drug | Bi'Ao (Ambroxol hydrochloride) | 52,753 | 52,214 | -1.0% | 22.9% | Clinical first-line expectorant phlegm drugs. Used for the expectorant treatment of acute chronic respiratory diseases. It is also a regular medication taken to prevent lung infections after surgery. |
| | Zhuo'Ao (Ambroxol hydrochloride) | 14,436 | 17,674 | 22.4% | 7.8% | |
| Anti-infective drug | Pojia (Sulbenicillin sodium) | 35,542 | 31,065 | -12.6% | 13.6% | Broad-spectrum penicillin with a broad antagonistic spectrum, strong antibacterial activity, low-levels of drug resistance, and which is safe and well-tolerated. |

Among the Company's non-CCV products, Ren'Ao (used primarily to treat epilepsy), Zhuo'Ao and Bi'Ao (both are respiratory system drugs) maintained stable growth in sales volume while lower tender prices led to slower growth of sales revenue. Sales of Ren'Ao rose 6.9% to RMB14.6 million while sales of Zhuo'Ao and Bi'Ao rose 22.4% and fell 1.0% respectively, accounting for combined revenue of RMB 69.9 million. Sales of Luoanming (a metabolism drug) increased by 25.3% to RMB72.9 million, thanks to its exclusive formulation. Due to stricter restrictions on the clinical use of anti-infective drugs, sales of Pojia decreased 12.6% to RMB 31.1 million.

The Group launched Roxatidine (exclusive first-to-market generic drug, a digestive system drug) in the second half of 2013. As of December 31 2013, Roxatidine has expanded its market by tender wins in two provinces and supplementary tender submissions in another province. In addition, it entered drug reimbursement list ("DRL") of one province. The product is expected to generate significantly more revenue with more extensive marketing and after winning tenders and entering provincial DRL in more provinces.

(iii) **Sales and Marketing**

a) **Expediting the recovery of two core products, Kelinao and Oudimei, by stepping up academic promotion and incentives to distributors**

Under academic promotion, the Group conducted clinical studies on Kelinao such as clinical cases collection and Real-World-Research with large sample size to reinforce Kelinao's position as a tier-one medicine in clinical use. For the same reason, the Group commenced several clinical studies on Oudimei partnering with reputable hospitals including The General Hospital of the People's Liberation Army ("PLAGH", 中國人民解放軍總醫院), Beijing Tiantan Hospital affiliated to Capital Medical University ("BTH", 首都醫科大學附屬北京天壇醫院) and Southwest Hospital (西南醫院). Over 2,000 academic promotion conferences and other activities for these two products were held in 2013 with more than 20,000 doctors participating.

In addition, the Group boosted incentives to distributors for Kelinao and Oudimei in order to motivate distributors to promote the Group's products. The effectiveness of these measures was reflected in a significant rebound in sales of the two products in the Year.

b) **Devising clear tendering strategies for its products**

*Horizontal expansion to increase market coverage through tender wins in more provinces: provincial tender wins and supplementary tender submissions*

For its key product Oudimei and promising products such as Yuanzhijiu, Yeduojia, Danshen Chuanxiongqin, the Group expanded market coverage by provincial tender wins and supplementary tender submissions.

*Vertical expansion to penetrate low-end markets: entering provincial Essential Drug List ("EDL") and provincial New Rural Cooperative Medical Scheme List ("NRCMSL")*

The Group further developed its major products in low-end markets with provincial EDL tender wins and provincial NRCMSL.

A key achievement on this front is that Kelinao, Chuanqing and Yuanzhijiu have been included under the EDL of Guangdong Province, one of the biggest drug markets in the country, and won the recent EDL tender in the province at favorable prices. In addition, Yuanzhijiu entered the EDL in Chongqing City, and Qudimei entered EDL in Hubei Province. The EDL of Xinjiang Autonomous Region announced recently the inclusion of Kelinao, Chuanqing, Oudimei and Guhong in its EDL. Moreover, Kelinao and Oudimei also entered the NRCMSL of 10 provinces respectively. The Group will continue to focus on making its major products in the EDL and NRCMSL of more provinces. This is expected to be a strong driver for deepening the products' penetration in low-end market.

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

Encouraging results were seen in research and development. Since XuanZhu Pharma Co., Ltd. ("XuanZhu Pharma") became a wholly-owned subsidiary of the Group in 2012, it has intensified efforts on innovative drug projects that are in line with the Group's overall strategy and redeployed resources to the Group's areas of priority. As a result, its innovative drug R&D made breakthroughs in 2013. Promising results were also seen in generic drugs development. In addition, the construction of the new R&D center located in Tongzhou, Beijing with an area of approximately 20,000 square meters has completed, laying a stronger foundation for the Group's product development.

(a) **Innovative drugs**

To date, the R&D team has already submitted investigational new drug ("IND") applications for seven Category 1.1 innovative drugs and has obtained Approval for Clinical Trial for five Category 1 innovative drugs. Achievements in innovative drug R&D in 2013 include:

- In January 2013, the Group received Approval for Clinical Trials for Benapenem (百納培南), a Category 1.1 innovative patented drug. This new drug 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 patented drug. This new drug 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 patented drug. Anaprazole Sodium is a new generation proton pump inhibitor (PPI) for treating gastrointestinal ulcers.

- In October 2013, the Group's application for Clinical Trial Approval of Pirotinib (哌羅替尼), a Category 1.1 innovative patented drug, was accepted by CFDA. Pirotinib is a second-generation (pan-HER) inhibitor for the treatment of lung and breast cancers. The Group is preparing for the filing for FDA application in the United States.

Clinical trial of Imigliptin Dihydrochloride has begun in 2013. Clinical trial of Benapenem and Anaprazole Sodium are progressing as planned. In addition, L-Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category 1.3 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 innovative CCV drugs development project with NeuroVive Pharmaceutical AB is also progressing as planned. Our collaboration with Netherland's to-BBB technologies B.V., which is principally engaged in the development of brain-targeted drug delivery technologies and products, has commenced during the Year under review.

Moreover, both Benapenem and Imigliptin Dihydrochloride have been awarded as The National Major Innovative Drug Projects (國家"重大新藥創制"科技重大專項).

(b) **Generic drugs**

The Group has also made good progress in the development of generic drugs. After securing production licenses for the exclusive first-to-market generic drug Roxatidine and Category 3.1 new drug Nalmefene Hydrochloride Injection at the end of 2012 and start of 2013 respectively, the products have successfully passed on-site inspections for production were launched in the market. Development of category 3.1 generic drugs such as Levetiracetam injection (左乙拉西坦注射液), Lacosamide (拉克醯胺) and Aprepitant (阿瑞吡坦) are progressing as planned. In total, the Group has seventeen Category 3.1 first-to-market generic drug projects under development. By the end of 2013, production license applications of twenty-two generic drugs were filed in total and these products are expected to be launched progressively in the coming years.

(v) **Production and Quality Management**

In 2013, the Group completed the construction of its main production and R&D base in Tongzhou, Beijing and the upgrade of all its other production bases. These facilities are certified under the new GMP standard and cover a total of over 300,000 square meters. These construction projects mark the largest constructions in our history and set a new industry record of total construction time taking only 1.5 years.

As the Group's Active Pharmacentical Ingredients ("APIs") production base, Langfang Gaobo Jingband has been injected with production licenses of four APIs products in 2013. In terms of international collaboration, Langfang Gaobo Jingband made good progress by establishing cooperation with the largest Canadian-based pharmaceutical company Apotex Inc.. The production facility passed on-site inspection by the Food and Drug Administration ("FDA") of United States in July 2013. The FDA issued the Establishment Inspection Report ("EIR") recently, indicating its approval of the GMP operations system under which the facility's products can be exported to the United States.

In spite of rising raw material and labor costs, the Group maintained cost efficiency in its production system through achieving economic of scale from expanded sales and improved manufacturing process management.

## (II) FUTURE PROSPECTS

(i) **Industry Outlook**

Fueled by China's growing economy, market potential released form expanded national medical insurance coverage, accelerated urbanization and ageing population, the management believes that demand for pharmaceutical products will continue to drive China's pharmaceutical industry, enabling it to maintain fast growth in 2014.

During the country's Twelfth Five-Year plan period, the bio-pharmaceutical industry is now one of the national strategic emerging industries and strong governmental support will be provided to facilitate innovation in the industry. Nonetheless, consolidation in the industry is intensifying due to medical reform, tightening control of hospital medical budget, spiraling price competition and the cost pressure from implementation of the new GMP standard are all placing new challenges to pharmaceutical companies.

The management believes that companies such as Sihuan Pharmaceutical will reap benefits from the government's policies for encouraging innovation and industry consolidation, being an innovative company with strong integrated capabilities, in R&D, production and sales and marketing, with its focus on exclusive and patented drugs.

(ii) **Growth Strategies**

**Continue to tap potential of strong existing product resources**

Sihuan Pharmaceutical has the core advantage of a young and diversified product portfolio that enjoys stable pricing. This includes six key and potential blockbuster products which are exclusive products, namely Kelinao, Oudimei, Yuanzhijiu, Yeduojia, Guhong and Roxatidine. It also includes over 10 products with exclusive formulations or dosages, such as Metronidzole injection (甲硝唑凍幹注射劑), together with Clindamycin (克林黴素) and Nilestriol (尼爾雌醇), which have been included in the recently expanded national EDL; and products such as Kelinao, Oudimei, Yuanzhijiu and Chuanqing which were recently added to EDL or NRCMSL of many provinces. This is a prestigious product mix which helps the Group to differentiate itself amidst fierce market competition, and is expected to sustain business growth in the coming years.

**Maintaining outstanding sales and marketing capabilities**

The Group's unique sales and marketing model has given it industry-leading sales and marketing capabilities, as shown in the Group's rapid market expansion and strong resilience in spite of changes and challenges in the industry. The Group will continue to reinforce its nationwide distribution network and optimize its sales and marketing system.

**Enriching product resources through R&D, acquisitions and product collaboration**

The Group has a strong track record of identifying and acquiring new product resources. It will continue to build a sustainable product pipeline through its established innovative and generic drug development platform, product collaboration with international companies as well as acquisitions. These measures all come with proven track records. The Group's long-term growth momentum will be supported by a variety of patented drugs and first-to-market generic drugs under development. These products are expected to launch from 2015.

(iii) **Outlook**

The Group's outstanding operational performance during the Year not only reflected the success of the Group's internal management integration, but also demonstrated its higher operational efficiency and adaptability to market changes. Looking ahead, the management firmly believes that leveraging its enhanced competitiveness, the Group is poised to seize opportunities arising from the industry consolidation and make strides into another new stage of development.

## (III) FINANCIAL REVIEW

### Turnover

In 2013, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. Total revenue increased by 55.6% from RMB3,042.5 million in 2012 to RMB4,732.7 million in 2013. The increase was mainly attributable to the sales growth of our CCV drugs.

Revenue from sales of CCV drugs in 2013 amounted to approximately RMB4,505.0 million, representing a growth of approximately 60.7% over 2012 and accounted for approximately 95.2% of the Group's turnover in 2013. 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 stricter restrictions on their clinical use, revenue derived from anti-infective drugs decreased by approximately 31.7% from RMB59.7 million in 2012 to RMB40.8 million in 2013, accounting for approximately 0.9% of the Group's total revenue in 2013. 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 12.1% to RMB175.2 million, accounting for approximately 3.7% of the Group's total revenue in 2013.

### Cost of sales

The Group's cost of sales during the Year amounted to approximately RMB1,033.0 million, accounting for approximately 21.8% of the total revenue in 2013.

**Gross profit**

Our gross profit increased by 61.6% from RMB2,289.4 million in 2012 to RMB3,699.7 million in 2013. Overall gross profit margin increased to 78.2% in 2013 from 75.2% in 2012, which was mainly due to an increase in the sales of products with higher gross profit margins.

**Other net gains**

Other net gains increased from RMB271.4 million in 2012 to RMB399.0 million in 2013. This was mainly due to an increase in government grants received by the Group.

**Distribution costs**

Distribution costs increased by 77.5% to RMB2,329.5 million in 2013 as compared to 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 58.2% from RMB206.6 million in 2012 to RMB326.8 million in 2013. The increase was primarily due to an increase in administrative expenses related to the operational expansion of the Group and an increase in the Group's investment in research and development.

**Net finance income**

Net finance income decreased from RMB124.1 million in 2012 to RMB112.3 million in 2013. The decrease was mainly due to a decrease 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 34.5% from RMB1,165.5 million in 2012 to RMB1,567.5 million in 2013.

**Income tax expenses**

Our income tax expenses increased by 5.5% from RMB244.0 million in 2012 to RMB257.4 million in 2013.

**Profit for the Year**

Based on the above factors, the Group's net profit increased by 42.2% from RMB921.5 million in 2012 to RMB1,310.1 million in 2013.

**Non-controlling interests**

Non-controlling interests decreased from RMB17.1 million in 2012 by RMB10.0 million to in RMB7.1 million in 2013.

**Profit attributable to owners of the Company**

Profit attributable to owners of the Company increased by 44.1% from RMB904.4 million in 2012 to RMB1,303.0 million in 2013.

**Liquidity and financial resources**

As at 31 December 2013, the Group's cash and cash equivalents amounted to RMB1,508.1 million (31 December 2012: RMB1,543.9 million); and term deposits with maturities of over three months amounted to RMB233.7 million (31 December 2012: RMB898.6 million); available-for-sale financial assets amounted to RMB776.1 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 Year, the total investment principals of the members of the Group amounted to RMB774.0 million. The investments made by the Group according to these agreements were categorized as short-term investments, which mainly consisted of financial planning products purchased from certain state-owned banks and reputable international financial institutions outside of PRC. For the said financial planning products, the issuing banks of such financial planning products 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 RMB774.0 million plus interests of approximately RMB2.1 million amounted to approximately RMB776.1 million, which recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2013. As at the date of this announcement, sold/repaid total investment principals amounted to RMB611.1 million.

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

The Group has sufficient cash as at 31 December 2013. The Directors are of the opinion that the Group does not have any significant capital risk.

| | As at 31 December 2013 *RMB'000* *Audited* | As at 31 December 2012 *RMB'000* *Audited* |
|---|---|---|
| Cash and cash equivalents | 1,508,076 | 1,543,907 |
| Less: Borrowings | (186,680) | (773,114) |
| | 1,321,396 | 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. Other receivables consist of amount receivables from partial disposal of Jilin Sichang, period taxes, prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables increased by RMB474.7 million from RMB923.3 million as at 31 December 2012 to RMB1,398.0 million as at 31 December 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**

Our inventory as at 31 December 2013 amounted to RMB101.3 million (inventory as at 31 December 2012: RMB91.5 million). In 2013, the inventory turnover days of our finished products was 18.9 days (2012: 18.4 days). We had no inventory impairments in 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 31 December 2013, the net book value of property, plant and equipment amounted to RMB1,441.7 million, representing an increase of RMB517.6 million, or approximately 56.0%, 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 arose from the acquisitions of the subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions and its own-developed R&D projects. As at 31 December 2013, net intangible assets amounted to RMB2,880.6 million (31 December 2012: RMB3,735.0 million).

### Trade and other payables

The Group's trade and other payables primarily consist of trade payables, accrued marketing service fee, deferred gain on partial disposal of Jilin Sichang, advances from customers, taxes payables, other payables, accrued expenses and amounts due to Directors. As at 31 December 2013, trade and other payables amounted to RMB1,253.1 million, representing an increase of RMB385.7 million as compared with 31 December 2012. The increase was mainly due to the increase in advances from customers and amounts due to Directors as at the end of 2013.

### Contingent liabilities and guarantees

As at 31 December 2013, the Group had no material contingent liabilities or guarantees.

### Off-balance sheet commitments and arrangements

As at 31 December 2013, apart from the contingent liabilities disclosed, the Group has not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payment liabilities of any third parties. The Group did not have any variable interests in any unconsolidated entities that provide financing or liquidity, create market risk or offer credit support to us or that engage in the provision of leasing, hedging or research and development services to the Group.

### Capital commitment

As of 31 December 2013, the Group had a total capital commitment of RMB331.2 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 and available-for-sale financial assets. The carrying amounts of cash equivalents, short-term bank deposits, trade and other receivables and available-for-sale financial assets represent our maximum exposure to credit risk in relation to our financial assets.

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

With respect to trade and other receivables, we have policies in place to ensure certain cash advances are paid by customers upon 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.

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 Company and its subsidiaries. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency. Nevertheless, dividend payment of foreign currency converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2013, the equivalent of approximately RMB180.8 million of the Group's outstanding borrowings were denominated in US Dollar, of which the foreign exchange risk has been set off with steadily appreciation of RMB against US Dollar over years.

For the year ended 31 December 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 2013, our capital expenditures amounted to RMB1,168.6 million, of which RMB846.1 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets increased by RMB234.5 million, and the remaining RMB88.0 million was spent on land use rights.

**Material acquisition and disposal**

During the Year, there was no material acquisition and disposal by the Group.

**Pledge of assets**

As at 31 December 2013, none of our assets was pledged.

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

As at 31 December 2013, the Group had 2,560 employees. For the year ended 31 December 2013, total salary and related costs of the Group was approximately RMB240.5 million (2012: RMB122.7 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 2013, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

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

Neither the Company nor any of its subsidiaries had purchased, sold on redeemed any of the Company's listed securities during the year ended 31 December 2013.

## CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code"), as set out in Appendix 14 to the Listing Rules throughout the Year save and except from the deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. 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 2013.

## 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. 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, Tsang Wah Kwong and Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy.

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

The annual results of the Group for the year ended 31 December 2013 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, Tsang Wah Kwong and Zhu Xun). Mr. Tsang Wah Kwong was appointed as the chairman of the nomination committee on 4 September 2013 in replacement of Mr. Xu Kangsen.

## 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, Tsang Wah Kwong and Zhu Xun). Mr. Zhu Xun was appointed as the chairman of the remuneration committee on 20 February 2014 in replacement of Mr. Bai Huiliang.

## ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 30 May 2014. 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 26 May 2014 to 30 May 2014 (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, Tricor Investor Services Limited at the following address not later than 4:30pm on 23 May 2014.

Address of the Company's Hong Kong branch share registrar:-

Before 31 March 2014: 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong

From 31 March 2014 onwards: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

## DIVIDEND AND BONUS ISSUE OF SHARES

In view of the growing pharmaceutical industry in China and the intensified industry consolidation, the Company decided to preserve some cash for future investments. The Board recommended the payment of a final cash dividend of RMB2.1 cents per share and a bonus issue of 1 bonus ordinary share at par value of HK$0.01 each for every 1 existing ordinary share ("Bonus Issue") for the year ended 31 December 2013 in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on 30 May 2014. Together with interim cash dividend of RMB4.3 cents per share, the total cash dividend for the year ended 31 December 2013 will be RMB6.4 cents per share.

Further detail of the Bonus Issue will be disclosed in the circular of the Company to be published on or before 30 April 2014.

## CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL DIVIDEND AND BONUS ISSUE OF SHARES

The register of members of the Company will be closed from 9 June 2014 to 13 June 2014 (both dates inclusive). In order to qualify for the final dividend and Bonus Issue, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at the following address not later than 4:30 pm on 6 June 2014. The final dividend and Bonus Issue are subject to the approval of shareholders at the Annual General Meeting, will be payable on 20 June 2014 to shareholders on the register of members of the Company on 13 June 2014.

Address of the Company's Hong Kong branch share registrar:-

Before 31 March 2014: 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong

From 31 March 2014 onwards: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 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 2013 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, 10 March 2014

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