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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)

**UPDATES ON DELAY IN PUBLICATION OF
2014 ANNUAL RESULTS AND
SUSPENSION OF TRADING**

Reference is made to the announcement of Sihuan Pharmaceutical Holdings Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 27 March 2015 in relation to the suspension of trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at the request of the Company from 9:00 a.m. on 27 March 2015 due to the Company being unable to publish its 2014 annual results by 31 March 2015 as required under Rule 13.49(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the postponement of the meeting of the board of directors of the Company (“**Board of Directors**”) which had been originally scheduled to be held on 31 March 2015.

The Company wishes to provide further details regarding the delay to the audit of the Company’s financial statements for the year ended 31 December 2014.

With effect from the completion of certain acquisitions in 2011, the Group retained the sales model of the newly acquired companies (“**Revised Sales Model**”) for some of the Group’s products in order to have an effective integration of their business with that of the Group. The Revised Sales Model was used alongside the Company’s own sales model. Under the Revised Sales Model, the Group engaged external marketing research agents (“**MRAs**”) to provide marketing and promotional services,

whereas under the Group's own sales model, it was the distributors who directly undertook marketing and promotional services. The adoption of the Revised Sales Model for some of the Group's products and its impact on revenue and expenses were mentioned in the 2012 annual report of the Company.

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

In view of the matters mentioned in the Enquiry, the Company's management had discussions with the audit committee of the Company (the "**Audit Committee**"), following which the Audit Committee commenced an investigation to determine whether there was any substance to the Enquiry (the "**Investigation**"). The scope of the Investigation, which is underway, was determined by the Audit Committee in consultation with the Company's auditor. The scope includes understanding how the Group's sales and marketing activities were conducted, reviewing the accounting treatment ("**Accounting Treatment**") adopted by the Company in the past in accounting for the Revenue and Distribution Expenses under the Revised Sales Model, assessing the impact (if any) to the Company's financial reporting and other potential implications.

In the Company's previous accounts for the financial years ended 31 December 2011, 2012 and 2013 (the "**Relevant Period**"), and in the Company's 2014 interim results, the Company treated the expenses paid to the MRAs mainly as distribution expenses.

Although the Investigation has not yet been concluded, based on the findings and new facts discovered so far, the Audit Committee has formed a preliminary opinion that certain MRAs should be consolidated into the Group's financial accounts (the "**Consolidation**"). Previously the Company's management had taken the view that, as the Company did not have shareholding interests in these MRAs, these MRAs did not need to be consolidated into the Company's accounts.

In view of the Consolidation, and after considering the substance of sales arrangement under the Revised Sales Model, the Audit Committee also formed a preliminary opinion that the Accounting Treatment of the relevant Revenue and Distribution Expenses should be modified, such that certain distribution expenses should be net-off against revenue ("**Adjustment**"), even though the Group's revenue was derived from bona fide sales transactions. The precise extent and nature of the proposed Adjustment are within the scope of the Investigation and are still being assessed by the Audit Committee and the Company's auditor, who, together with the Company's management, have discussed the matters extensively.

Further to such discussions, which are ongoing, the Board of Directors agrees with the Audit Committee that it is appropriate to consolidate the relevant MRAs into the Group's financial accounts, and revise the Accounting Treatment of the Revenue and Distribution Expenses under the Revised Sales Model as proposed by the Audit Committee. Base on the information which is available at present, the Company believes the Consolidation and Adjustment would not have any material impact to the net profit of the Group in the Relevant Period.

In light of the Investigation, the Company's auditor is assessing the relevant audit implications and is performing additional audit procedures. The Company's auditor is unable, at this time, to comment on the length of time required to finish their work.

As the ongoing Investigation may potentially result in the amendment of the management accounts, the Company believes that it is inappropriate at this stage to provide any management accounts. Shareholders of the Company will be informed of progress on a timely basis. The Company will publish further announcement(s) to inform the shareholders of the Company of the progress of the Investigation and the date of release of the 2014 Annual Results on a timely basis.

Suspension of Trading

Trading in the shares of the Company on the Stock Exchange will remain suspended until further notice.

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

Hong Kong, 19 April 2015

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