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 2016

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 2016 (the "**Period**") together with the comparative figures for the six months ended 30 June 2015. These interim results have been reviewed by the external auditors of the Company, Messrs. Ernst & Young, 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**").

The Board would like to draw attention to the fact that the interim condensed consolidated financial information includes comparative information as required by International Accounting Standard 34, "Interim financial reporting". The comparative information for the interim condensed consolidated statement of comprehensive income, changes in equity and cash flows, and related explanatory notes for the period ended 30 June 2015 has not been audited or reviewed.

INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2016 RMB'000	2015 RMB'000	Change
Key Income Statement Items			
Revenue	1,387,672	1,773,521	-21.8%
Gross profit	927,421	1,278,850	-27.5%
Operating profit	828,941	1,598,783	-48.2%
Profit attributable to owners of the Company	735,968	1,451,550	-49.3%
Gain on disposal of a subsidiary	—	(547,048)	N/A
Adjusted profit attributable to owners of the Company excluding gain on a disposal of a subsidiary	735,968	904,502	-18.6%
Key Financial Indicators			
Gross profit margin	66.8%	72.1%	
Net profit margin	53.0%	81.9%	
Earnings per share - Basic (RMB cents)	7.10	14.01	
Receivable Turnover (days)	62	63	
Inventory Turnover (days)	98	73	
Interim dividend per share (RMB cents)	1.4	1.4	

- Revenue of the Group decreased by 21.8% to approximately RMB1,387.7 million (for the six months ended 30 June 2015: approximately RMB1,773.5 million).

- Gross profit margin declined to 66.8% (for the six months ended 30 June 2015: 72.1%), mainly due to stiff competition in the market that led to a lower selling price of some major products, as well as an increase in amortisation and depreciation and other fixed operating costs after completion of our new plants under Good Manufacturing Practice ("**GMP**") requirements.

- Profit attributable to owners of the Company decreased by 49.3% to approximately RMB736.0 million (for the six months ended 30 June 2015: approximately RMB1,451.6 million). Excluding RMB547.0 million of investment gains generated from disposal of equity interest in Jilin Sichang Pharmaceutical Co., Ltd. ("**Jilin Sichang**") in January 2015, profit attributable to owners of the Company decreased by 18.6% compared with the six months ended 30 June 2015.

- Basic earnings per share decreased to approximately RMB7.10 cents (for the six months ended 30 June 2015: approximately RMB14.01 cents).

- An interim dividend of RMB1.4 cents per share was declared by the Board.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
	Notes	**30 June 2016**	**31 December 2015**
		RMB'000	*RMB'000*
		Unaudited	Audited
Assets			
Non-current assets			
Property, plant and equipment	4	2,062,618	2,051,370
Investment properties	4	29,992	30,881
Intangible assets	4	2,797,141	2,817,065
Prepaid land lease payments	4	587,211	596,407
Investments accounted for using the equity method	8	1,203,910	1,189,118
Deferred income tax assets	5	21,974	18,146
Other receivables	6	4,000	—
Other non-current assets		167,753	171,075
		6,874,599	6,874,062
Current assets			
Inventories		265,892	233,028
Trade and other receivables	7	746,989	972,267
Available-for-sale financial assets		2,484,111	1,959,280
Cash and cash equivalents		2,678,311	2,282,370
		6,175,303	5,446,945
Total assets		13,049,902	12,321,007

	Notes	As at 30 June 2016 RMB'000 Unaudited	As at 31 December 2015 RMB'000 Audited
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	9	85,126	85,610
Share premium	9	5,493,576	5,574,848
Other reserves		184,689	172,541
Retained earnings		5,534,858	5,262,640
		11,298,249	11,095,639
Non-controlling interests		81,928	96,093
Total equity		11,380,177	11,191,732
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	5	86,285	125,876
Other non-current liabilities	12	60,541	61,220
Borrowings		8,280	8,280
		155,106	195,376
Current liabilities			
Trade and other payables	11	1,294,706	664,308
Current income tax liabilities		181,077	217,696
Other current liabilities	12	38,836	51,895
		1,514,619	933,899
Total liabilities		1,669,725	1,129,275
Total equity and liabilities		13,049,902	12,321,007

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June 2016 *RMB'000* Unaudited	2015 *RMB'000* Unaudited
Revenue	13	1,387,672	1,773,521
Cost of sales		(460,251)	(494,671)
Gross profit		927,421	1,278,850
Other income	13	23,733	19,821
Other gains — net	13	150,311	615,256
Distribution expenses		(55,862)	(61,929)
Administrative expenses		(216,662)	(253,215)
Operating profit	13	828,941	1,598,783
Finance income		49,763	71,920
Finance expenses		(900)	(292)
Finance income — net		48,863	71,628
Share of profit and loss of investments accounted for using the equity method	8	12,664	11,871
Profit before income tax		890,468	1,682,282
Income tax expense	14	(172,516)	(240,534)
Profit for the period		717,952	1,441,748
Attributable to:			
Owners of the parent		735,968	1,451,550
Non-controlling interests		(18,016)	(9,802)
		717,952	1,441,748
Earnings per share attributable to ordinary equity holders of the parent during the period			
- Basic and diluted earnings per share (expressed in RMB cents per share)	15	7.10	14.01

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Profit for the period	717,952	1,441,748
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	35,111	24,475
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
- gain on disposal	(25,280)	(13,031)
Other comprehensive income for the period, net of tax	9,831	11,444
Total comprehensive income for the period	727,783	1,453,192
Attributable to:		
Owners of the parent	745,799	1,462,994
Non-controlling interests	(18,016)	(9,802)
	727,783	1,453,192

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2015	85,610	5,574,848	151,897	3,479,322	9,291,677	114,336	9,406,013
Profit for the period	—	—	—	1,451,550	1,451,550	(9,802)	1,441,748
Other comprehensive income, net of tax	—	—	11,444	—	11,444	—	11,444
Total comprehensive income	—	—	11,444	1,451,550	1,462,994	(9,802)	1,453,192
Employees share award scheme	—	—	6,805	—	6,805	—	6,805
Acquisition of a subsidiary	—	—	—	—	—	30,338	30,338
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	8,027	8,027
Disposal of a subsidiary	—	—	(11,350)	11,350	—	(72,326)	(72,326)
Acquisition of non-controlling interests	—	—	(890)	—	(890)	(3,517)	(4,407)
Balance as at 30 June 2015 (Unaudited)	85,610	5,574,848	157,906	4,942,222	10,760,586	67,056	10,827,642

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent						
	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 2016	85,610	5,574,848	172,541	5,262,640	11,095,639	96,093	11,191,732
Profit for the period	—	—	—	735,968	735,968	(18,016)	717,952
Other comprehensive income, net of tax	—	—	9,831	—	9,831	—	9,831
Total comprehensive income	—	—	9,831	735,968	745,799	(18,016)	727,783
Employees share award scheme (Note 10)	—	—	2,297	—	2,297	—	2,297
Repurchase and cancellation of shares	(484)	(81,272)	—	—	(81,756)	—	(81,756)
Dividend (Note 16)	—	—	—	(463,750)	(463,750)	—	(463,750)
Changes in ownership interests in subsidiaries without change of control	—	—	20	—	20	3,851	3,871
Balance as at 30 June 2016 (Unaudited)	85,126	5,493,576	184,689	5,534,858	11,298,249	81,928	11,380,177

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Net cash flows generated from operating activities	1,058,363	573,322
Net cash flows used in investing activities	(580,561)	351,635
Net cash flows (used in)/generated from financing activities	(81,861)	7,930
Net increase in cash and cash equivalents	395,941	932,887
Cash and cash equivalents at the beginning of the period	2,282,370	1,359,094
Cash and cash equivalents at the end of the period	2,678,311	2,291,981

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2016

1. GENERAL INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (the "**Company**") was 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 manufacturing and sale of pharmaceutical products in Mainland China.

The holding company and 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.

The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The main operation address is 21st Floor, Building 2, Zhubang 2000 Business Centre, West Balizhuang, Chaoyang District, Beijing, 100025, the People's Republic of China (the "**PRC**").

The Company had its primary listing on The Stock Exchange of Hong Kong Limited on 28 October 2010.

The interim condensed consolidated financial information is presented in Renminbi ("**RMB**") thousand yuan, unless otherwise stated. The interim condensed financial information was approved for issue on 23 August 2016.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its operating activities, the board of executive directors of the Company ("**Executive Directors**") considers that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore adopts the going concern basis in preparing the interim condensed consolidated financial information.

2.2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2.3 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those as set out in the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new and revised IFRSs issued by International Accounting Standards Board which have become effective in this Period. The adoption of those new and revised IFRSs has no material impact on the accounting policies in the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016.

3. SEGMENT INFORMATION

The chief operating decision-maker have been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources.

The Executive Directors consider the Group as one business segment from the product perspective, which is the research and development, manufacturing and sale of pharmaceutical products in Mainland China. During the six months ended 30 June 2016, all sales were from distributors and none of the distributors contributed 10% or more of the Group's revenue (During the six months ended 30 June 2015: None).

All of the Group's operations and customers, and more than 90% of the Group's non-current assets are located in Mainland China.

4. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, INTANGIBLE ASSETS AND PREPAID LAND LEASE PAYMENTS

	Property, plant and equipment	Investment properties	Other intangible assets	Goodwill	Prepaid land lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2016					
Opening amount as at 1 January 2016	2,051,370	30,881	569,337	2,247,728	596,407
Additions	91,573	—	44,068	—	—
Disposals	(2)	—	—	—	—
Depreciation and amortisation	(80,323)	(889)	(54,766)	—	(9,196)
Impairment charge	—	—	(9,226)	—	—
Closing amount as at 30 June 2016 (Unaudited)	2,062,618	29,992	549,413	2,247,728	587,211
Six months ended 30 June 2015					
Opening amount as at 1 January 2015	1,704,128	32,659	588,775	2,226,936	362,364
Additions	142,291	—	31,621	—	20,423
Acquisition of subsidiary	121,989	—	8,050	20,792	—
Transfer out for an investment in an associate	(11,481)	—	—	—	(3,565)
Depreciation and amortisation	(61,470)	(889)	(53,609)	—	(4,952)
Closing amount as at 30 June 2015 (Unaudited)	1,895,457	31,770	574,837	2,247,728	374,270

The land use rights represent land use rights in Mainland China with a lease period of 50 years.

As at 30 June 2016, the ownership certificates of buildings ("**Building Ownership Certificates**") of the Group with net book value of RMB820,701,000 (2015:RMB645,552,000) had not been obtained by the Group. Land use rights with a net book value of approximately RMB401,822,000 (2015: RMB419,426,000) have no land use rights certificates. The Directors consider that there is no legal restriction for the Group to apply for and obtain the Building Ownership Certificates and the land use rights certificate. It should not lead to any significant adverse impact on the operations of the Group.

5. DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during the six months ended 30 June 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

1) Deferred income tax assets

	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	18,146	61,906
Credited/(charged) to profit	3,828	(40,508)
Closing balance at 30 June	21,974	21,398

2) Deferred income tax liabilities

	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	125,876	130,390
(Credited)/charged to profit	(2,591)	2,641
Payment of withholding tax	(37,000)	—
Closing balance at 30 June	86,285	133,031

6. OTHER RECEIVABLES

	As at	
	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Amount receivable from an associate	4,000	—

The receivable from an associate, Beijing Ruiye Drugs Manufacture Co. Ltd. ("**Beijing Ruiye**"), was secured by 10% shares of Beijing Ruiye's parent Company, Beijing Ruiye Economic and Technology Development Co., Ltd. and repayable on 8 May 2019. Interest is charged at 5% annually.

7. TRADE AND OTHER RECEIVABLES

	As at	
	30 June	**31 December**
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables — third parties	83,378	99,512
Notes receivables	339,038	426,254
Prepayments to suppliers	129,418	112,513
Amount receivable from an associate (a)	12,000	25,953
Amount receivable from a joint venture (b)	72,834	71,167
Dividends receivables (c)	40,000	—
Other receivables	70,321	185,689
Prepaid value added tax	—	45,782
Prepaid income tax	—	5,397
	746,989	972,267

(a) The receivable from an associate with an amount of RMB12,000,000 as at 30 June 2016, Xi'an Tengyun Network Technology Co., Ltd. ("**Xi'an Tengyun**"), was unsecured and repayable on 28 July 2016. Interest is charged at 4.35% annually.

(b) The amount receivable from a joint venture, Jilin Sichang, including a loan principal of RMB69,400,000 and interest amounting to RMB3,433,854 which was unsecured and repayable in full on demand. Interest is charged at 4.75% annually.

(c) Dividends receivables represent the dividend from the joint venture, Jilin Sichang, declared for the year 2015.

Trade and other receivables that are neither past due nor impaired are assessed by making reference to historical information about default rates, reputation, liquidity and other financial information of the counterparties.

Most sales of the Group were settled in advance from customers. The Group's credit terms granted to certain customers range from one month to one year. The ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at	
	30 June 2016	**31 December 2015**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Receivables		
Within 3 months	82,677	69,007
3 to 6 months	130	116
6 to 12 months	52	6,745
More than 12 months	519	23,644
	83,378	99,512

8. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	As at	
	30 June 2016	**31 December 2015**
	RMB'000	*RMB'000*
	Unaudited	Audited
Investments in associates	502,637	470,503
Investment in a joint venture	701,273	718,615
	1,203,910	1,189,118

(a) Investment in associates

	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Opening balance at 1 January	470,503	358,491
Capital contributions to associates (Note (i))	65,563	102,720
Establishment of associates (Note (ii))	3,050	—
Disposal of Beijing Eazy-Tek Bio-Technology Co., Ltd. ("**Beijing Eazy-Tek Bio-Tech**") (Note (iii))	(26,485)	—
Share of loss of associates	(9,994)	(9,748)
Closing balance at 30 June	502,637	451,463

Notes:

(i) In February 2016, the Group injected capital of RMB65,563,000 into Renfang Medical Holdings Ltd. ("**Renfang Medical**"), of which 38.1% interest was owned by the Company intermediately.

(ii) In March 2016, the Group subscribed 49.0% equity interest in Xi'an Tengyun for a cash consideration of RMB50,000 for its establishment with other independent third parties. The principal activities of Xi'an Tengyun are technology promotion, technology service, technology consultation service and technology transfer service.

In June 2016, the Group subscribed 33.0% equity interest in Hangzhou Junanyoudao Network Co., Ltd. ("**Hangzhou Junanyoudao**") for a cash consideration of RMB3,000,000. The principal activities of Hangzhou Junanyoudao are technology development, technology service, technology consultation service and technology transfer service.

(iii) In June 2016, the Group disposed 24.3% equity interests of Beijing Eazy-Tek Bio-Tech. The disposal gain amounting to RMB3,851,000 was recognised in the current period.

(b) Investment in a joint venture

	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Opening balance at 1 January	718,615	—
Loss of control over Jilin Sichang	—	637,500
Dividends declared	(40,000)	—
Share of profit of joint venture	22,658	21,619
Closing balance at 30 June	701,273	659,119

9. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	**Share capital**	**Share premium**	**Total**
	Share'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2015 and 2016 (audited) (HK$0.01 per share)	10,364,182	85,610	5,574,848	5,660,458
Repurchase and cancellation of shares (Note(i))	(58,633)	(484)	(81,272)	(81,756)
As at 30 June 2016 (unaudited) (HK$0.01 per share)	10,305,549	85,126	5,493,576	5,578,702

Note:

(i) In June 2016, the Company repurchased 58,633,000 of its own shares on the Stock Exchange at an aggregate consideration of HK$96,461,229 (equivalent to RMB81,756,000). These shares were cancelled by the Company in June 2016 accordingly.

10. SHARE-BASED PAYMENT

(i) Share award scheme

An award scheme for the purpose of incentivising the management of the Company (the "**Employee Share Award Scheme**") has been adopted by certain shareholders of the Company (namely, Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng) on 25 October 2010. On 25 January 2013, another shareholder of the Company (namely, MSPEA Pharma Holdings B.V.) also participated in the Employee Share Award Scheme. Trustee Co. (a private trust company established in the British Virgin Islands and wholly owned by Plenty Gold) has been appointed as the trustee to hold the reserved shares under the Employee Share Award Scheme. Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng, as settlors of a trust, have reserved and set aside a total of 33,750,000 shares of the Company; and MSPEA Pharma Holdings B.V. has reserved and set aside an additional 3,750,000 shares of the Company, all of which are being held by the Trustee Co. as trustee for the Employee Share Award Scheme. The Employee Share Award Scheme involves granting of existing shares held by the Trustee Co. and no new shares will be issued pursuant to the Employee Share Award Scheme.

The Company measures the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as other reserve. No new share will be issued by the Company under the Employee Share Award Scheme and there is no dilution impact to earnings per share calculation as a result of the Employee Share Award Scheme.

Under the Employee Share Award Scheme, share awards were granted to the eligible employees of the Group, which are exercisable into the specific number of shares of the Company after the employees paid the exercised consideration to certain shareholders, held by the Trustee Co., designated in each financial year during the period from the grant date up to the expiry date of the relevant share awards granted. Options granted become vested after certain employment periods ranging from one to five years, while the grantees are required to complete the service till the vesting date.

The summary of the above share awards which have been granted to certain employees of the Group, is as follows:

Grant date	**Exercise price in HK$ per share award**	**Number of share awards granted (in thousands)**
20 March 2012 ("**Option A**")	3.19	14,150
27 September 2013 ("**Option B**")	3.19	19,750
21 October 2013 ("**Option C**")	0.70	2,050
		35,950

With the approval of the Company's shareholders at the annual general meeting of the Company held on 30 May 2014, a bonus issue of share (the "**Bonus Issue**") was made on the basis of 1 bonus share for every 1 existing share held by the shareholders whose names appeared on the register of members of the Company on 13 June 2014. As a result of the Bonus Issue, adjustments had been made to the number of the then outstanding share awards granted under the Employee Share Award Scheme as follows:

	Before Bonus Issue		**After Bonus Issue**	
Grant date	**Exercise price in HK$ per share award**	**Number of share awards granted (in thousands)**	**Exercise price HK$ per share award**	**Number of share awards granted (in thousands)**
20 March 2012	3.19	2,084	3.19	4,167
27 September 2013	3.19	18,066	3.19	36,133
21 October 2013	0.70	2,050	0.70	4,100
		22,200		44,400

On 28 June 2016, 234 employees of the Group were granted new share awards ("**New Awards**") entitling them to acquire an aggregate of 31,448,172 ordinary shares of par value HK$0.01 each of the Company from the trustee for the purpose of the Employee Share Award Scheme at an exercise price of HK$1.57 per option share on the condition that the 234 employees of the Group will surrender the Option A and Option B of which options were not vested and forfeited.

Grant date	**Exercise price in HK$ per share award**	**Number of share awards granted (in thousands)**
28 June 2016 (New Awards)	1.57	31,448

(ii) Share awards movement

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

Option A	Average exercise price in HK$ per share award	Share awards (in thousands)	
		2016	**2015**
At 1 January	3.19	4,167	4,167
Modified to New Awards	3.19	(4,167)	—
At 30 June		—	4,167

Option B	Average exercise price in HK$ per share award	Share awards (in thousands)	
		2016	**2015**
At 1 January	3.19	28,668	28,668
Forfeited	3.19	(1,387)	—
Modified to New Awards	3.19	(27,281)	—
At 30 June		—	28,668

Option C	Average exercise price in HK$ per share award	Share awards (in thousands)	
		2016	**2015**
At 1 January	0.70	4,100	4,100
Forfeited	0.70	(4,100)	—
At 30 June		—	4,100

New Awards	Average exercise price in HK$ per share award	Share awards (in thousands)	
		2016	2015
Granted on 28 June 2016 as modification to Option A and Option B	1.57	31,448	—
Exercised	1.57	(2,333)	—
At 30 June		29,115	—

Share awards outstanding as at 30 June 2016 have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK$ per share award	Number of outstanding share awards granted (in thousands)	
		2016	2015
21 March 2017	3.19	—	4,167
26 September 2018	0.70	—	4,100
26 September 2018	3.19	—	28,668
28 June 2021	1.57	29,115	—
		29,115	36,935

The Company recognized share awards expense of RMB2,297,000 under the Employee Share Award Scheme during the six months ended 30 June 2016 (Six months ended 30 June 2015: RMB6,805,000).

11. TRADE AND OTHER PAYABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade payables (Note (i))	143,775	72,624
Advance from customers	207,603	203,174
Payables for construction and purchase of equipment	66,787	76,844
Amount due to other related parties (Note (ii))	7,800	24,834
Amount due to an associate (Note (ii))	25,168	6,600
Amount due to a joint venture (Note (ii))	4,481	4,481
Deposit payables	159,822	155,756
Dividend payables	463,750	—
Accrued reimbursement to distributors	53,862	38,327
Other taxes payable	51,404	5,074
Salaries payables	25,482	26,816
Other payables	84,772	49,778
	1,294,706	664,308

Notes:

(i) Trade payables of RMB46,848,000 (2015:RMB37,950,000) is payable to Jilin Sichang, a joint venture, for purchasing of pharmaceutical products.

(ii) The amounts to related parties, associates and joint venture are interest-free, unsecured and repayable on demand.

As at 30 June 2016, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Payables		
Within 6 months	137,378	70,488
6 to 12 months	4,315	80
More than 1 year	2,082	2,056
	143,775	72,624

12. OTHER LIABILITIES

	As at	
	30 June 2016	**31 December 2015**
	RMB'000	*RMB'000*
	Unaudited	Audited
Deferred revenue for sales of distribution rights (a)	82,885	77,831
Deferred government grants (b)	16,492	35,284
	99,377	113,115
Less: Current portion		
Deferred revenue for sale of distribution rights (a)	36,731	34,156
Deferred government grants (b)	2,105	17,739
	38,836	51,895
Non-current portion	60,541	61,220

(a) It represents the cash advances from distributors for the sale of distribution rights of certain pharmaceutical products to distributors for 5 years. The revenue is recognised in the profit or loss on a straight line basis.

(b) It represents the deferred income of government grants received for the construction of property, plant and equipment. It is credited to the profit or loss on a straight line basis over the expected lives of the related assets.

13. OPERATING PROFIT

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

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sales of pharmaceutical products	1,379,678	1,773,521
Revenue from general hospital services	7,994	—
Revenue	1,387,672	1,773,521
Sale of distribution right	22,017	19,166
Rental income	1,716	655
Other income	23,733	19,821
Gain on disposal of a subsidiary	—	547,048
Government grants (Note (i))	119,361	64,160
Compensation gains (Note (ii))	34,073	—
Impairment of assets (Note (iii))	(9,226)	—
Gain on disposal of associate	3,851	—
Others	2,252	4,048
Other gains - net	150,311	615,256
Depreciation and amortisation	130,661	107,542
Amortisation of deferred development costs	14,513	13,378
Research and development expenses	59,832	94,317

Notes:

(i) Various government grants have been received for tax refunds in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

(ii) The compensation gains represented the compensation paid by Nanjing Zhonglei Medical Industry Development Co., Ltd. because of its failure to comply with the investment agreement.

(iii) Due to the change of the market and technical factors, the Group cancelled the development of certain projects and provided full impairment for the related net book value.

14. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2016 and 2015 is analysed as follows:

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current tax:		
Current tax on profits for the period	178,935	197,385
Total current tax	178,935	197,385
Deferred tax:		
Origination and reversal of temporary differences	(6,419)	43,149
Total deferred tax	(6,419)	43,149
Income tax expense	172,516	240,534

(a) Income tax expense

(i) Bermuda profits tax

No profit was subject to any taxation in Bermuda for the six months ended 30 June 2016 and 2015.

(ii) Hong Kong profits tax

The Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2016 and 2015.

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

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

Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2016 was provided at a preferential tax 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 Tax Arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate is reduced to 5% from 10%.

15. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to oridnary equity holders of the parent by the weighted average number of ordinary shares in issue for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	**2015**
	Unaudited	*Unaudited*
Profit attributable to ordinary equity holders of the Company (RMB'000)	735,968	1,451,550
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	10,361,852	10,364,182
Basic earnings per share (RMB cents per share)	7.10	14.01

(b) Diluted

There is no dilution to earnings per share for the Period because there was no potential dilutive ordinary shares issuance existing for the six months ended 30 June 2016. The diluted earnings per share equals the basic earnings per share.

16. DIVIDEND

	Six months ended 30 June	
	2016	**2015**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Proposed interim dividend of RMB1.4 cents (2015: RMB1.4 cents) per ordinary share	140,228	145,099

An interim dividend of RMB1.4 cents per share for the six months ended 30 June 2015 was proposed by the Board on 31 August 2015. It was payable on or around 23 September 2015 to shareholders of the Company who were on the register of members of the Company on 17 September 2015.

A final dividend of RMB4.5 cents per share for the year ended 31 December 2015, amounting to RMB463,750,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 28 June 2016 and was paid on 13 July 2016 to shareholders whose names appeared on the register of members of the Company on 7 July 2016.

An interim dividend of RMB1.4 cents per share of the Company (for the six months ended 30 June 2015: RMB1.4 cents per share) was proposed by the Board on 23 August 2016. It is payable on or around 15 September 2016 to shareholders of the Company who are on the register of members of the Company on 9 September 2016.

17. SUBSEQUENT EVENTS

(i) From 4 July 2016 to 22 July 2016, the Company repurchased 289,298,000 shares through the Stock Exchange at a total consideration of approximately HKD493,214,000. Such shares have been cancelled on 3 August 2016.

(ii) On 16 August 2016, Shanghai Lide Biotech Co., Ltd., an associate, of which 9.5% interest was owned intermediately by the Company, succeeded in listing on the National Equities Exchange and Quotations.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

In the first half of 2016, the industry faced stronger controls over excessive medical insurance expenditures. Governments of various regions announced their "Key Monitored Drug List (重點監控藥品目錄)", in which oncology and cardio-cerebral vascular ("**CCV**") drugs have become hospitals' major targets for budget control. In addition, core products Kelinao/Anjieli are no longer exclusive drugs of the Group. Confronted with competing products with the same chemical entity, the Group lowered the selling prices of Kelinao/Anjieli to incentivize distributors. Prices of competing products have also been reduced to various degrees for the same reason. In April 2016, the State Council of the PRC (the "**State Council**") announced the "Notice of the General Office of the State Council on Issuing the Major Tasks in 2016 in the Deepening of the Reform of the Medical and Health Care System" (SCS 2016, no.26), requiring implementation of the "Two-Invoice System"[1] in central drug procurement for public hospitals. The State Council plans to roll out the "Two-Invoice System" nationally, first in 11 provinces and then move on to the rest of the country, which is causing distributors to inventory destocking, resulting in a drop in the sales of products. The aforementioned factors led to the Group's first negative growth in history with revenue and profit attributable to owners of the Company decreasing by 21.8% and 49.3% year-on-year, respectively. Excluding the one-off investment income for the same period last year, profit attributable to owners of the Company decreased by 18.6% year-on-year.

Despite the severity of market conditions, fundamentals of Sihuan Pharmaceutical's operation in China's CCV prescription drug market remained solid. According to data of IMS Health Incorporated ("**IMS**"), the Group maintained its top position in the CCV prescription drug market in terms of hospital purchase during the Period, with its market share reaching 11.9%, ranking it the fourth in the overall hospital market in China.

[1] Under the "Two-Invoice System", a drug manufacturer would sell its products to a distributor or its designated agent (the first invoice), and after that, that particular distributor or designated agent would not be allowed to on-sell the products to other distributors or their designated agents but should sell them directly to the medical institution (the second invoice). The objective of the "Two-Invoice System" was to reduce the number of layers of distributors between the drug manufacturers and the medical institutions.

(i) Sales of Key Products

(a) **CCV products**

During the Period, sales of CCV products accounted for 94.6% of the Group's total revenue, representing a decrease of 21.7% year-on-year.

The Group's core products, Kelinao/Anjieli and Oudimei, were listed on the "Key Monitored Drug List" of many provinces and municipalities, and the supply price of Kelinao/Anjieli were reduced, therefore resulting in negative effects on the sales of these products. As a result, Kelinao/Anjieli and Oudimei recorded a decrease in sales of 40.5% and 28.8% year-on-year, respectively. Yuanzhijiu continued to achieve sales growth. Yeduojia, Danshen Chuanxiongqin, Yimaining and Qu'Ao recorded slight decrease in sales, while other non-exclusive products recorded decreases in sales due to intensified competition and lowered selling prices.

Sales of key CCV products:

	For the six months ended 30 June		
	2015	**2016**	**Change in sales**
Product Name	*(RMB'000)*	*(RMB'000)*	**year-on-year**
Kelinao/Anjieli (Cinepazide maleate injection)	366,872	218,218	-40.5%
Oudimei (Cerebroside- kinin injection)	454,587	323,834	-28.8%
Yuanzhijiu (Troxerutin and cerebroproptein hydrolysate injection)	218,387	219,965	0.7%
Yeduojia (Compound trivitamin B for injection (II))	62,150	60,318	-2.9%
Danshen Chuanxiongqin (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	110,299	101,328	-8.1%
Yimaining (Alprostadil lipid emulsion injection)	138,772	130,051	-6.3%
GM1 (Monosialotetrade osylganglioside sodium injection)	102,749	79,907	-22.2%
Qu'Ao (Cerebroprotein hydrolysate)	57,950	55,682	-3.9%
Chuanqing (Ligustrazine hydrochloride for injection)	44,570	32,077	-28.0%
Qingtong (Edaravone injection)	37,472	25,505	-31.9%
Guhong injection (Compound of aceglutamide and safflower extract)	72,515	52,761	-27.2%
Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection	1,727	909	-47.4%

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

During the Period, the Group achieved outstanding sales performance with the newly-launched non-CCV products. For instance, sales of Roxatidine increased by 77.0% year-on-year. Sales of Huineng increased by 234.5% year-on-year despite delayed provincial tenders and limited market coverage, but has yet to reach economies of scale. Ren'Ao maintained stable growth with sales increased by 5.8% year-on-year. Non-exclusive products Zhuo'Ao/Bi'Ao did not achieve growth due to intensified competition and lowered selling prices.

Sales of key Non-CCV products:

Product Name	**For the six months ended 30 June**		**Change in sales year-on-year**
	2015 *(RMB'000)*	**2016** *(RMB'000)*	
Ren'Ao (Oxcarbazepine)	11,081	11,718	5.8%
Bi'Ao (Ambroxol hydrochloride)	29,372	24,125	-17.9%
Zhuo'Ao (Ambroxol hydrochloride)	9,836	7,413	-24.6%
Clindamycin	23,108	9,006	-61.0%
Roxatidine	4,189	7,414	77.0%
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	1,036	3,464	234.5%

(ii) Sales and Marketing

In the first half of 2016, faced with steep challenges arising from control on total expenditure for medical insurance, the implementation of the "Two-Invoice System" and lowering tender prices, the Group timely adjusted its marketing strategy to focus on county-level and community-level medical institutions. In accordance with the national policy orientation of hierarchical diagnosis and treatment, the Group dedicated its efforts in the development of more small- and medium-sized hospitals markets to minimize the impact of tighter control on excessive medical insurance expenditure in high-end markets. The Group endeavored to promote its newly launched products during the past two years by seizing tendering opportunities, entering products into provincial and municipal drug reimbursement lists and essential drug lists, and developing the private hospital market. In addition, the Group actively discussed with distributors ways to minimize the impact of the "Two-Invoice System".

To further develop the hospital market, the Group conducted practical and effective academic promotion activities. The Group organized frequent hospital-level and small scale departmental academic activities. The Group conducted targeted clinical research of its core products in order to enhance physicians' recognition of the Group's products. In the first half of 2016, the Group organized a total of 3,335 academic promotion activities, including 3,287 hospital-level and departmental academic seminars and 48 provincially/municipally medium scale and nationally large scale academic symposiums.

At the same time, the Group continued to take advantage of the professional online platform of Sihuan Pharm Online School for marketing promotions. The Group further optimized and enriched its online content, launched a new section "Beijing Hospital Neurology Snapshot" and updated a number of other sections, containing contents such as clinical consultation and operation videos, academic activities, and industry updates. During the Period, there were 6,902 new registered members. As at the end of June 2016, there were over 52,976 registered physicians as members and over 10 million visitors. The online platform not only improved the Group's professional brand image in neurology, but also served as a new way for academic promotions.

To actively respond to market changes, the Group continued to strengthen its sales and marketing system by enhancing the professionalism and sales and marketing capabilities of its sales staff. In the Period, the Group hired several marketing management personnel who have extensive experience in multi-national pharmaceutical companies, and set up the medical affairs department which is responsible for medical market research and marketing strategies. The Group introduced SMART (which means specific, measurable, achievable, realistic and timed) market data analysis system which uses market data analysis to determine a product's market development potential and, in turn, sales and marketing targets. It facilitates efficient resources allocation and market development.

(iii) New Drug Research and Development ("R&D")

The Group achieved encouraging progress in new drugs R&D during the Period. The innovative patented drug Pirotinib (哌羅替尼) completed the dose escalating trial of Phase I clinical trials in the United States and patients demonstrated preliminary efficacy responses without serious adverse effects. Phase I clinical trials of Pirotinib in China also progressed smoothly. Imigliptin Dihydrochloride obtained approval for Phase II/III clinical trials from the China Food and Drug Administration ("**CFDA**") on 27 July 2016. Production of samples for its Phase

II clinical trials were completed and Phase II clinical trials will commence shortly. Anaprazole Sodium completed Phase I clinical trials and results are being summarized. Samples for Phase II/III clinical trial are being prepared for the application of clinical trial approval. In addition, Category 1.1 innovative drugs Tylerdipine Hydrochloride (泰樂地平) and Benapenem (百納培南) completed Phase I clinical trials and results are being summarised. Phase I clinical trial of Janagliflozin (加格列淨) is under preparation. In addition, the novel analgesic exclusive drug jointly developed with the Japanese company RaQualia Pharma Inc. is proceeding smoothly, 40 new synthesized compounds were developed and are under screening, among which monomer compounds were discovered that have further research value.

Good progress was also achieved in generic drugs R&D. The Group received approvals for clinical trials of 36 products, 27 of which were Category 3 new drugs. By the end of June 2016, 26 projects filed application for production approval. They are expected to be progressively launched to the market within two to three years.

In addition, the Group's generic drugs team started quality consistency evaluation on five oral formulations (including metformin hydrochloride tablets, azithromycin capsules, oxcarbazepine tablets, simvastatin and candesartan cilexetil tablets).

Also, the Group received eight national, provincial and municipal awards for its new drug R&D, demonstrating recognition of the Group's R&D capabilities from government entities at all levels.

(iv) Production Quality Control

After production facilities of the Group passed the new GMP certification, the Group established a production quality management center to implement systematic production quality management of the production facilities. According to the new GMP management standard and new requirements of China Food and Drug Administration, the Group has established a stricter internal quality control system and implemented internal quality audits to promote strict implementation of the system. In the first half of 2016, the Group's production quality management center implemented six quality audits in total at the production facilities, and required the production facilities to submit rectification plans on problems and defect items found in the quality audits, which would be improved and rectified after the plans were approved by the production quality management center. Under strict systematic management, the production facilities continued to optimize their production management and quality control. During the Period, the Group's internal qualification rate was 100%. No unqualified samples were found during inspections by external institutions (local drug testing laboratories, etc.). No quality and safety-related incidents have occurred.

The Group's production costs from the production system were pressured by continuously rising labor costs and commencement of amortisation incurred by previous upgrade to meet the GMP standard. Despite improvement in the yield of finished products of the Group's main products attributable to the enhancement of technological standards and production efficiency, the Group's amortised cost per production unit has significantly increased as compared to the same period last year due to lower production volume of the Group's main products.

(II) FUTURE PROSPECTS

(i) Industry Outlook

It is expected that the government will maintain tight control over excessive growth in medical expenditure, which, in turn, will be causing hospitals to exercise tight control on prescription of drugs to reduce their drug costs. The lowering of provincial drug tender prices and implementation of the "Two-Invoice System" will continue to pressure the pharmaceutical industry. Moreover, the government's implementation of higher technical and regulatory standards is inflicting short-term pressure on the industry.

Fueled by China's ageing population, rapid urbanization and universal medical insurance coverage, rigid demand in the domestic pharmaceutical market will continue to grow. With the elimination of weaker competitors and mergers and acquisitions across the industry, pharmaceutical corporations with integrated operational advantages are expected to gain growth opportunities and flourish in the long run after the short-term challenges.

(ii) Operation Strategies Adjustment

In view of changes in the market, the Group will adjust its strategies in a timely and proactive manner. The Group sees the challenges as opportunities to improve and advance its internal management and consolidate its business fundamentals, in order to maintain operational stability and to pave the way for better development in the future.

1) Expanding into low-end medical market to fully realize market potential of existing products

While consolidating its leadership in first and second-tier cities, the Group has also been focusing on the development of low-end markets which cover county-level or small prefecture-level city hospitals, town hospitals and third-party end-users. For products well-developed in first and second-tier cities, the Group will deepen its penetration by developing their low-end markets; for products in the development stage, the Group will expand horizontally into new regions while vertically expanding into low-end markets. For products newly launched in the past two years, the Group will seize all tender opportunities to enter new markets and expand in all levels of markets from provincial capitals to prefecture- and county-level markets. In conclusion, the Group is dedicated to deepening its market penetration and refining management, in order to tap into the unrealized potential of different markets to maximize return.

2) Extending life span of core products

To increase physicians' understanding and recognition of the Group's products, the Group conducted research analysis on its core products in areas including their mechanism, characteristics and new clinical usage. The Group used the results and relevant information for marketing promotions through different kinds of academic exchange and communication channels, mainly focusing on the education of front-line medical personnel about the products' safety and efficacy. In the first half of 2016, the Group has commenced several research studies on its core products. Supported by promising medical analysis results, the Group is extending its penetration in the hospital market, with an aim to extend the coverage of its several core products to 8,000 to 10,000 hospitals.

3) Further enrichment of product resources portfolio

After the launch of Roxatidine, Huineng, Clindamycin and Metronidzole, the Group has progressively launched more new products including Nilestriol, Verapamil Hydrochloride, Nicotinamide and Dopamine Hydrochloride. The Group will continue to enrich its operational product portfolio from launching of new products selected from its product reserve as well as products having received production approval. Following the all-round tender of each province, contribution from these products is expected to grow gradually, which will help alleviate the burden on sales growth of mature products.

4) Adjusting sales and marketing strategies to adapt to policy and market changes

In order to minimize the impact of the "Two-Invoice System", the Group will adjust the sales and marketing system into a hybrid marketing model. The Group will continue to engage stronger distributors as independent third parties to work with its internal marketing team, while selectively hiring smaller distributors as the Group's in-house sales staff. The Group will also build direct sales teams in markets where it has no or little presence. In the meantime, the Group will extend its distribution and delivery channels to low-end markets, laying the foundation for the Group's development in those markets. These efforts are to ensure smooth transition of the sales system to the "Two-Invoice System", while extending the Group's intensive market coverage and strengthening its control.

The Group will steer its sales and marketing system to be more focused on academic promotion, which is different from the traditionally sales-driven model. Under such system, a product's market position is built upon academic research results and market analysis data. The sales and marketing system will be managed in a scientific, systematic and digitized manner.

(III) OUTLOOK

The industry is set to face a slew of immense challenges in 2016. Continued control over excessive medical insurance expenditures, declining tender prices, implementation of the "Two-Invoice System" and numerous uncertainties to the follow-up policies, putting pressure on Sihuan Pharmaceutical and other pharmaceutical companies. In the second half of 2016, the Group will keep on strengthening its internal management and exercise effective cost control, in order to consolidate its business foundation and sustain operational stability.

On the back of its leading market position, solid operation foundation, economies of scale, strong capabilities in R&D and sales and marketing, the management believes that Sihuan Pharmaceutical can withstand and will overcome the short-term challenges smoothly in the coming years. Through continuous adjustment and improvement, the Group will embrace new opportunities for future prosperity.

FINANCIAL REVIEW

Turnover

For the Period, total revenue of the Group decreased by 21.8% or approximately RMB385.8 million from RMB1,773.5 million for the six months ended 30 June 2015 to RMB1,387.7 million for the Period. The decrease was mainly due to the fact that the Company reduced its supply price for Kelinao/Anjieli, one of its core products, in order to compete with its competitors and enhance the appetite of distributors, and supply price for many other non-exclusive products were also reduced at varying degrees. Meanwhile, control on medical insurance expenditure also greatly affected sales of the Group.

For the Period, sales of CCV drugs amounted to approximately RMB1,312.1 million, representing a decrease of approximately RMB363.3 million when compared with the six months ended 30 June 2015, which accounted for approximately 94.6% of the Group's total revenue.

Revenue derived from non-CCV drugs decreased by approximately 23.0% from RMB98.1 million for the six months ended 30 June 2015 to RMB75.6 million for the Period, accounting for approximately 5.4% of the Group's total revenue. The decrease was mainly due to a sharp fall in the Group's sales of anti-infective drugs caused by a strict limitation on the use of anti-infective drugs in China.

Cost of sales

The Group's cost of sales for the Period amounted to approximately RMB460.3 million, accounting for approximately 33.2% of the total revenue.

Gross profit

Gross profit of RMB927.4 million was recorded for the Period, representing a decrease of RMB351.5 million when compared with RMB1,278.9 million for the six months ended 30 June 2015. Overall gross profit margin decreased from 72.1% for the six months ended 30 June 2015 to 66.8% for the Period, which was mainly due to a decrease in selling price of some products as a result of keen market competition as well as an increase in amortisation and depreciation after completions of our new plants under GMP requirements.

Other net gains

Other net gains decreased by RMB465.0 million from RMB615.3 million for the six months ended 30 June 2015 to RMB150.3 million for the Period. This was mainly due to the one-off income arising from the disposal of equity interest in Jilin Sichang in the same period last year.

Distribution costs

Distribution costs for the Period decreased by RMB6.1 million to RMB55.9 million over the same period last year due to lower transportation expenses and marketing expenditure.

Administrative expenses

Administrative expenses decreased by 14.4% from RMB253.2 million for the six months ended 30 June 2015 to RMB216.7 million for the Period as higher provision of professional expenses and bonus to Directors in the same period of last year.

Net finance income

Net finance income decreased from RMB71.6 million for the six months ended 30 June 2015 to RMB48.9 million for the Period. The decrease was mainly due to lower return on our investments under prevailing market conditions.

Profit before income tax

Based on the above factors, the Group's profit before income tax decreased by 47.1% from RMB1,682.3 million for the six months ended 30 June 2015 to RMB890.5 million for the Period.

Income tax expenses

As a result of lower operating profit and the effect of time difference on tax from disposal of Jilin Sichang, the Group's income tax expenses decreased by 28.3% from RMB240.5 million for the six months ended 30 June 2015 to RMB172.5 million for the Period.

Profit for the Period

Based on the above factors, the Group's net profit decreased by 50.2% from RMB1,441.7 million for the six months ended 30 June 2015 to RMB718.0 million for the Period.

Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased by 49.3% from RMB1,451.6 million for the six months ended 30 June 2015 to RMB736.0 million for the Period. However, after excluding the one-off income of RMB547.0 million derived from the disposal of Jilin Sichang in 2015, the profit attributable to owners of the Company decreased by 18.6%.

Profit attributable to non-controlling interests

Losses in non-controlling interests increased from RMB9.8 million for the six months ended 30 June 2015 to RMB18.0 million for the Period as the losses in non-wholly owned subsidiaries expanded.

Liquidity and financial resources

As at 30 June 2016, the Group's cash and cash equivalents amounted to RMB2,678.3 million (as at 31 December 2015: RMB2,282.4 million) and available-for-sale financial assets amounted to RMB2,484.1 million (as at 31 December 2015: RMB1,959.3 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash for short-term investments in order to obtain better returns. Therefore, members of the Group entered into agreements with certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC to invest extra cash. According to such agreements, during the Period, the total amount of investment of members of the Group amounted to RMB2,449.0 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 may invest the Group's funds at their discretion into financial instruments such as treasury bonds, discounted bank acceptances, commercial acceptance bills and bank deposits. The investment principal of RMB2,449.0 million plus interest of approximately RMB35.1 million in aggregate amounted to approximately RMB2,484.1 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 30 June 2016. As at the date of this announcement, total amount of sold/repaid investment principal amounted to RMB2,111.0 million.

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

The Group has sufficient cash as at 30 June 2016. The Directors are of the opinion that the Group does not have any significant capital risk.

	30 June 2016	**31 December 2015**
	RMB'000	*RMB'000*
	Unaudited	Audited
Cash and cash equivalent	2,678,311	2,282,370
Less: Borrowings	(8,280)	(8,280)
	2,670,031	2,274,090

Trade and other receivables

The Group's trade receivables consist of credit sales of its products to be paid by its distributors. Other receivables of the Group consist of prepaid value added tax, prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables were RMB747.0 million as at 30 June 2016, representing a decrease of RMB225.3 million when compared with trade and other receivables of RMB972.3 million as at 31 December 2015, mainly due to a decrease in other receivables and notes receivables for the Period.

Inventory

Inventory as at 30 June 2016 amounted to RMB265.9 million (as at 31 December 2015: RMB233.0 million). Inventory turnover days were 98 days for the Period (for the six months ended 30 June of 2015: 73 days). The Group had no inventory impairments during the Period.

Property, plant and equipment

The Group's property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 30 June 2016, the net book value of property, plant and equipment amounted to RMB2,062.6 million, representing an increase of RMB11.2 million, or approximately 0.5%, when compared with the net book value of property, plant and equipment as at 31 December 2015. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Intangible assets

The Group's intangible assets mainly consist of goodwill, customer relationships, patents, deferred development costs and product development in progress. The Group's goodwill arose from acquisition of the Group's subsidiaries. The deferred development costs and product development in progress mainly represented the acquisition of certain pharmaceutical R&D projects from external research institutions and self-developed R&D projects. As at 30 June 2016, net intangible assets amounted to RMB2,797.1 million (as at 31 December 2015: RMB2,817.1 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, other payables and accrued expenses. As at 30 June 2016, trade and other payables amounted to RMB1,294.7 million, representing an increase of RMB630.4 million when compared with the trade and other payables as at 31 December 2015, mainly due to an increase in dividends payable.

Contingent liabilities and guarantees

As at 30 June 2016, the Group had no material contingent liabilities or guarantees (31 December 2015: nil).

Off-balance sheet commitments and arrangements

As at 30 June 2016, 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 the Group or engage in the provision of leasing, hedging or R&D services to the Group.

Capital commitment

As at 30 June 2016, the Group had a total capital commitment of RMB242.4 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. The Group has 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 the Group's maximum exposure to credit risk in relation to our financial assets.

With respect to cash and cash equivalents, the Group manages the credit risk of cash in the PRC by placing it as bank deposits in large PRC state-owned banks without significant credit risks. The Group manages the credit risk of cash outside the PRC by placing it as bank deposits in financial institutions that have high credit quality.

With respect to trade and other receivables, the Group has policies in place to ensure certain cash advances are paid by customers upon the agreement of the related sales orders. The Group assesses the credit quality of the counterparties by taking into account their financial positions, credit histories and other factors. 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. Financial instruments of the Group are denominated in RMB. The Group is subject to currency risk of United States Dollar ("**USD**") or Hong Kong Dollar ("**HKD**") against RMB as the Group has some cash balances denominated in USD or HKD. In addition, 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 2016, the Group had no outstanding borrowings denominated in a foreign currency.

For the Period, 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

The Group's capital expenditure primarily consists of purchase of property, plant and equipment, prepaid land lease payments and intangible assets. For the Period, the Group's capital expenditure amounted to RMB134.4 million, of which RMB101.7 million was spent on property, plant and equipment. The expense for purchasing and self-developed intangible assets was RMB32.7 million.

Material acquisition and disposal

On 5 February 2016, Sun Moral International (HK) Limited ("**Sun Moral**"), a wholly-owned subsidiary of the Company agreed with NHPEA IV Health Holding B.V. ("**NHPEA IV Health**") and Euromax Holdings Limited ("**Euromax**") to inject capital into Renfang Medical. Renfang Medical was then owned as to 23.71% by Euromax, 38.14% by NHPEA IV Health and 38.14% by Sun Moral, respectively. The total amount of capital injected into Renfang Medical was USD26.6 million (equivalent to RMB172.4 million) (the "**Capital Injection**"). The Capital Injection was contributed by each of the shareholders of Renfang Medical with respect to their then shareholdings in Renfang Medical proportionally (i.e. USD6.3 million (equivalent to RMB40.9 million) by Euromax, USD10.1 million (equivalent to RMB65.6 million) by NHPEA IV Health and USD10.1 million (equivalent to RMB65.6 million) by Sun Moral).

In or around April 2016, Euromax and NHPEA IV Health, inter alia, entered into a share purchase agreement. Pursuant to the share purchase agreement, Euromax sold an 18.91% equity interest in Renfang Medical to NHPEA IV Health. As such, as at the date of this announcement, Renfang Medical is owned as to 38.14% by Sun Moral, 57.06% by NHPEA IV Health and 4.80% by Euromax.

Pledge of assets

As at 30 June 2016, none of the Group's assets were 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 employees to work towards enhancing the value of the Company and promoting the long-term growth of the Company.

As at 30 June 2016, the Group had 2,782 employees. For the Period, total salaries and related costs of the Group were approximately RMB134.9 million (for the six months ended 30 June 2015: RMB112.1 million).

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions of the Corporate Governance Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the Period.

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 to 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 Period.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee consists of one non-executive Director (Dr. Zhang Jionglong) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy. The chairman of the Audit Committee has the appropriate professional qualification and experience in financial matters. The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the Period.

REVIEW OF ACCOUNTS

The Audit Committee and Messrs. Ernst & Young, the Company's external auditors, have reviewed the Company's interim condensed consolidated financial information for the six months ended 30 June 2016 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

During the Period, the Company repurchased 58,633,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HK$96 million. Such shares have been cancelled as at the date of this announcement. Details of repurchase are as follows:

		Repurchasing price for each share			
				Aggregate consideration paid	
Date of repurchase	Number of ordinary shares repurchased	Highest HK$	Lowest HK$	HK$ Million	Equivalent to RMB Million
23 June 2016	13,699,000	$1.64	$1.59	22.3	18.9
24 June 2016	44,934,000	$1.66	$1.60	74.2	62.9
Total:	58,633,000			96.5	81.8

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

EVENTS AFTER THE REPORTING PERIOD

From 4 July 2016 to 22 July 2016, the Company repurchased 289,298,000 shares through the Stock Exchange at a total consideration of approximately HKD493,214,000. Such shares have been cancelled on 3 August 2016.

On 16 August 2016, Shanghai Lide Biotech Co., Ltd., an associate, of which 9.5% interest was owned intermediately by the Company, succeeded in listing on the National Equities Exchange and Quotations.

Save as disclosed, the Group has no significant events after the reporting period up to the date of this announcement.

INFORMATION FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB1.4 cents per share (equivalent to HK$1.6 cents per share) (for the six months ended 30 June 2015: RMB1.4 cents per share) for the Period.

The interim dividend will be payable on or around Thursday, 15 September 2016 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company at the close of business on Friday, 9 September 2016.

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

The register of members of the Company will be closed from Wednesday, 7 September 2016 to Friday, 9 September 2016, 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 branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 6 September 2016.

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 ON THE STOCK EXCHANGE'S WEBSITE

This announcement of interim results for the six months ended 30 June 2016 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 PERIOD

The interim report of the Company for the Period will be dispatched to Shareholders 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 branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or via email at sihuanpharm-ecom@hk.tricorglobal.com 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 and Executive Director

Hong Kong, 23 August 2016

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