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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December		
	2016	**2015**	**Change**
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue	3,185,699	3,167,211	0.6%
Gross profit	2,188,946	2,228,054	-1.8%
Operating profit	2,131,156	2,808,998	-24.1%
Profit attributable to owners of the Company	1,708,239	2,062,378	-17.2%
(Less): One-off gain from disposal of interests in a subsidiary	—	(535,041)	
Adjusted profit attributable to owners of the Company	1,708,239	1,527,337	11.8%
Key Financial Ratios			
Gross profit margin	68.7%	70.3%	
Net profit margin	53.6%	65.1%	
Earnings per share — Basic (RMB cents)	16.8	19.9	-15.4%
Adjusted earnings per share - Basic (RMB cents)	16.8	14.7	14.3%
Receivable Turnover (days)	63	60	
Inventory Turnover (days)	78	79	
Proposed final cash dividend per share (RMB cents)	3.8	4.5	
Proposed special cash dividend per share (RMB cents)	5.5	—	

2016 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 0.6% from RMB3,167.2 million to RMB3,185.7 million in 2016.
- Profit attributable to owners of the Company decreased by 17.2% to RMB1,708.2 million in 2016. If the one-off gain of RMB535.0 million (net of tax) is excluded from 2015, profit attributable to the owners of the Company increased by 11.8%.
- Basic earnings per share decreased by approximately 15.4% over 2015 to approximately RMB16.8 cents in 2016. Excluding the one-off gain from disposal of interest in a subsidiary, basic earning per share of the Company increased by 14.3%.
- The Board recommends the declaration and payment of a final cash dividend of RMB3.8 cents per share and a special cash dividend of RMB5.5 cents per share which are subject to the approval of the Shareholders at the forthcoming annual general meeting.

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 2016 (the "**Year**") together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		2,104,299	2,051,370
Investment properties		29,103	30,881
Goodwill		2,247,728	2,247,728
Intangible assets	3	578,998	569,337
Land use rights		647,769	596,407
Investments accounted for using the equity method	16	1,292,851	1,189,118
Deferred income tax assets		35,883	18,146
Other non-current assets		56,000	171,075
		6,992,631	6,874,062
Current assets			
Inventories		200,680	233,028
Trade and other receivables	4	877,256	972,267
Available-for-sale financial assets	5	1,709,964	1,959,280
Cash and cash equivalents		2,407,073	2,282,370
		5,194,973	5,446,945
Total assets		12,187,604	12,321,007

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	6	79,443	85,610
Treasury shares	6	(255)	—
Share premium	6	4,344,229	5,574,848
Other reserves		137,096	172,541
Retained earnings		6,340,925	5,262,640
		10,901,438	11,095,639
Non-controlling interests		69,655	96,093
Total equity		10,971,093	11,191,732
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		74,094	125,876
Other non-current liabilities	7	103,924	61,220
Borrowings	8	—	8,280
		178,018	195,376
Current liabilities			
Trade and other payables	9	827,306	664,308
Current income tax liabilities		158,800	217,696
Borrowings	8	8,280	—
Other current liabilities	7	44,107	51,895
		1,038,493	933,899
Total liabilities		1,216,511	1,129,275
Total equity and liabilities		12,187,604	12,321,007
Net current assets		4,156,480	4,513,046
Total assets less current liabilities		11,149,111	11,387,108

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
Revenue	10	3,185,699	3,167,211
Cost of sales	11	(996,753)	(939,157)
Gross profit		2,188,946	2,228,054
Other income	10	166,434	136,258
Other gains — net	10	486,289	540,685
Gain on derecognition of associates		3,851	—
Gain on derecognition of subsidiaries		871	619,464
Distribution costs	11	(145,765)	(155,112)
Administrative expenses	11	(540,467)	(455,852)
Other expenses	11	(29,003)	(104,499)
Operating profit		2,131,156	2,808,998
Finance expenses		(210)	(160)
Share of profits of investments accounted for using the equity method	16	21,624	32,908
Profit before income tax		2,152,570	2,841,746
Income tax expense	12	(472,732)	(796,954)
Profit for the year		1,679,838	2,044,792
Profit attributable to:			
Owners of the Company		1,708,239	2,062,378
Non-controlling interests		(28,401)	(17,586)
		1,679,838	2,044,792

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

		Year ended 31 December	
		2016	**2015**
	Notes	*RMB'000*	*RMB'000*
Profit for the year		1,679,838	2,044,792
Other comprehensive income			
Available-for-sale investments:			
Changes in fair value		87,260	122,173
Reclassification adjustments for gains included in the consolidated statements of profit or loss			
- gain on disposal		(97,676)	(109,924)
Other comprehensive income/(loss) for the year, net of tax		(10,416)	12,249
Total comprehensive income for the year		1,669,422	2,057,041
Attributable to:			
Owners of the Company		1,697,823	2,074,627
Non-controlling interests		(28,401)	(17,586)
Total comprehensive income for the year		1,669,422	2,057,041
Earnings per share attributable to ordinary equity holders of the Company during the year (expressed in RMB cents per share)			
— Basic and diluted earnings per share	13	16.8	19.9

CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations		2,613,776	2,215,391
Income tax paid		(595,750)	(646,781)
Net cash flows from operating activities		2,018,026	1,568,610
Cash flows from investing activities			
Capital contribution to associates		(108,000)	(98,578)
Net cash inflow from disposal of subsidiaries		20,624	628,282
Net cash inflow from disposal of associates		75,336	—
Tax paid on disposal of a subsidiary		—	(40,620)
Acquisition of subsidiaries		—	(96,418)
Payment for purchase of property, plant and equipment		(241,116)	(410,023)
Purchase of intangible assets		(38,334)	(107,108)
Purchases of land use rights		(85,143)	(77,794)
Purchases of available-for-sale financial assets	5	(9,513,100)	(16,268,986)
Proceeds from disposal of available-for-sale financial assets	5	9,752,000	15,939,586
Proceeds from disposal of property, plant and equipment		408	327
Dividend received from a joint venture		40,000	—
Interest received		97,676	144,840
Net cash flows from/(used in) investing activities		351	(386,492)
Cash flows from financing activities			
Proceeds from borrowings		—	4,780
Repurchase and cancellation of shares		(1,237,041)	—
Acquisition of additional interest in a subsidiary		(52,662)	(4,310)
Capital contribution by non-controlling interests to subsidiaries		3,298	20,680
Dividends paid to company's shareholders	14	(607,059)	(279,832)
Interest paid		(210)	(160)
Net cash flows used in financing activities		(1,893,674)	(258,842)
Net increase in cash and cash equivalents		124,703	923,276
Cash and cash equivalents at beginning of year		2,282,370	1,359,094
Cash and cash equivalents at end of year		2,407,073	2,282,370

Notes:

1. GENERAL INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (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 ("**R&D**"), 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 100025, the PRC.

The Company had 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 28 March 2017.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and related Interpretations, promulgated by the International Accounting Standards Board (the "**IASB**"). These financial statements also complied with the disclosure requirements of the Hong Kong Companies Ordinance, and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

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.

2.1 Changes in accounting policies and disclosures

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements *2012-2014 Cycle*	*Amendments to a number of IFRSs*

The adoption of the new and revised standards has had no significant financial effect on these financial statements.

3. INTANGIBLE ASSETS

	Customer relationship *RMB'000*	Deferred development costs *RMB'000*	Product development in progress *RMB'000*	Others *RMB'000* *(a)*	Total *RMB'000*
At 1 January 2015					
Cost	433,932	432,616	247,960	22,783	1,137,291
Accumulated amortization	(239,451)	(206,266)	—	(13,099)	(458,816)
Impairment	—	(1,063)	(88,637)	—	(89,700)
Net carrying amount	194,481	225,287	159,323	9,684	588,775
Cost at 1 January 2015,					
Net of accumulated impairment	194,481	225,287	159,323	9,684	588,775
Additions	—	7,000	77,351	682	85,033
Acquisition of a subsidiary	—	12,206	—	—	12,206
Amortisation charge	(77,293)	(28,800)	—	(3,132)	(109,225)
Impairment	—	—	(7,452)	—	(7,452)
Cost and net carrying amount at 31 December 2015	117,188	215,693	229,222	7,234	569,337
At 31 December 2015					
Cost	433,932	451,822	325,311	23,465	1,234,530
Accumulated amortisation	(316,744)	(235,066)	—	(16,231)	(568,041)
Impairment	—	(1,063)	(96,089)	—	(97,152)
Net carrying amount	117,188	215,693	229,222	7,234	569,337
Cost at 1 January 2016,					
Net of accumulated impairment	117,188	215,693	229,222	7,234	569,337
Additions	—	99,867	25,456	24,667	149,990
Amortisation charge	(77,293)	(30,865)	—	(3,661)	(111,819)
Impairment	—	(969)	(27,541)	—	(28,510)
Cost and net carrying amount at 31 December 2016	39,895	283,726	227,137	28,240	578,998
At 31 December 2016					
Cost	433,932	551,689	350,767	48,132	1,384,520
Accumulated amortisation	(394,037)	(265,931)	—	(19,892)	(679,860)
Impairment	—	(2,032)	(123,630)	—	(125,662)
Net book amount	39,895	283,726	227,137	28,240	578,998

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

4. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Trade receivables — third parties	97,455	99,512
Notes receivables	493,731	426,254
Prepaid value added tax	—	45,782
Prepayments to suppliers	172,404	112,513
Prepaid income tax	—	5,397
Amount due from an associate	13,500	25,953
Amount due from a joint venture company	74,519	71,167
Receivables from other related parties	9,673	148
Other receivables	15,974	185,541
	877,256	972,267

The Group's credit terms granted to customers range from one month to one year. The ageing analysis of trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Within 3 months	93,942	69,007
3 to 6 months	3,211	116
6 months to 1 year	3	6,745
More than 1 year	299	23,644
	97,455	99,512

As at 31 December 2016 and 2015, no trade receivables were impaired and no allowance was made. The trade receivables are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	**2015**
	RMB'000	*RMB'000*
At 1 January	1,959,280	1,617,631
Additions	9,513,100	16,268,986
Disposals	(9,752,000)	(15,939,586)
Change in fair value of available-for-sale financial assets	(10,416)	12,249
At 31 December	1,709,964	1,959,280

Available-for-sale financial assets include the following:

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Short-term investments	1,709,964	1,959,280

The amount represents short-term investments placed in certain PRC reputable banking institutions 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 3.9% (2015: 4.0%).

The maximum exposure to credit risk at the reporting date is the carrying values 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 banking institutions internal credit ratings. None of these financial assets is either past due or impaired.

6. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares	Number of issued and fully paid ordinary shares	Share capital	Treasury shares	Share premium	Total
	Share'000	*Share'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2015 and 31 December 2015 (HK$0.01 per share)	100,000,000	10,364,182	85,610	—	5,574,848	5,660,458
As at 1 January 2016 (HK$0.01 per share)	100,000,000	10,364,182	85,610	—	5,574,848	5,660,458
Movement from 1 January 2016 to 31 December 2016:						
Repurchase and cancellation of shares	—	(777,498)	(6,167)	(255)	(1,230,619)	(1,237,041)
As at 31 December 2016 (HK$0.01 per share)	100,000,000	9,586,684	79,443	(255)	4,344,229	4,423,417

7. OTHER LIABILITIES

	As at 31 December 2016	2015
	RMB'000	*RMB'000*
Deferred revenue for sales of distribution rights	82,592	77,831
Deferred government grants	65,439	35,284
	148,031	113,115
Less: Current portion		
Deferred revenue for sales of distribution rights	39,501	34,156
Deferred government grants	4,605	17,739
	44,107	51,895
Non-current portion	103,924	61,220

8. BORROWINGS

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Non-current — Other loans	—	8,280
Current — Other loans	8,280	—
	8,280	8,280

At 31 December 2016, the Group's borrowings were repayable as follows:

	As at 31 December Others loans	
	2016	**2015**
	RMB'000	*RMB'000*
Within 1 year	8,280	—
Between 1 and 2 years	—	8,280
Between 2 and 5 years	—	—
	8,280	8,280

The borrowings interest rates are 3.0% to 5.3% (2015: from 3.0% to 5.3%) annually.

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

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Trade payables	82,662	34,674
Advances from customers	235,401	203,174
Costs of construction and purchase of equipment payables	68,703	76,844
Amount due to an associate	—	6,600
Amount due to other related parties	83	24,917
Deposit payables	149,486	155,756
Accrued reimbursement to distributors	47,369	38,327
Amount due to a joint venture	69,302	42,431
Other taxes payable	58,230	5,074
Salaries payables	57,074	26,816
Other payables	58,996	49,695
	827,306	664,308

At 31 December 2016, the ageing analysis of the trade payable based on invoice date is as follows:

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Within 6 months	79,411	32,538
6 months to 1 year	1,268	80
More than 1 year	1,983	2,056
	82,662	34,674

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

10. REVENUE, OTHER INCOME AND OTHER GAINS — NET

	Year ended 31 December 2016 *RMB'000*	2015 *RMB'000*
Revenue:		
Sales of pharmaceutical products (Note (a))	3,170,469	3,158,042
Revenue from general hospital services	15,230	9,169
	3,185,699	3,167,211
Other income:		
Sales of distribution rights	51,118	24,845
Rental income	3,785	1,489
Interest income	111,531	109,924
	166,434	136,258
Other gains — net:		
Government grants (Note (b))	374,058	541,029
Exchange gain	79,513	4,919
Others	32,718	(5,263)
	486,289	540,685

Notes:

(a) Sales of pharmaceutical products represent the sales value of goods supplied to customers, net of sales tax, value-added tax, sales returns and commercial discounts. The marketing and promotion expenses of RMB382,432,000 (2015: RMB141,744,000) paid to marketing research agents, which were eventually, directly or indirectly, reimbursed to the customers, were regarded, in substance, as sales discounts to customers and have been deducted against the sales value of goods sold.

(b) The government grants represented the subsidies received from the local government and no specific conditions are attached to them.

11. EXPENSES BY NATURE

	Year ended 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Research and development costs		
Research expenses	109,997	107,625
Amortisation of deferred development costs	30,865	28,800
	140,862	136,425
Raw materials used	577,408	544,045
Changes in inventories of finished goods and work in progress	61,339	54,338
Employee benefit expenses	316,247	248,822
Depreciation of property, plant and equipment	163,176	136,969
Depreciation of investment properties	1,778	1,778
Amortisation of intangible assets excluding the amortisation of deferred development costs	80,954	80,425
Impairment of intangible assets	28,510	7,452
Business tax and surcharges	54,184	48,895
Office expenses	47,123	55,872
Travelling expenses	23,130	36,553
Professional services expense	62,274	44,290
Transportation expenses	24,355	26,904
Utilities and property management fee	9,192	8,160
Rental expenses	19,685	10,394
Amortisation of land use rights	14,244	14,666
Advertising and promotional expenses	5,930	21,274
Auditor's remuneration	5,000	2,950
Entertainment expenses	6,928	6,727
Tax surcharge	—	96,809
Bank charge	493	238
Others	69,176	70,634
Total cost of sales, distribution costs, administrative expenses and other expenses	1,711,988	1,654,620

12. INCOME TAX EXPENSE

	Year ended 31 December 2016 *RMB'000*	2015 *RMB'000*
Current taxation:		
- Provision for the year	542,251	381,424
- Additional charge, net of over-provision in respect of prior years	—	326,284
Deferred tax	(69,519)	89,246
Income tax expense	472,732	796,954

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2016 (2015: 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 2016 *RMB'000*	2015 *RMB'000*
Profit before tax	2,152,570	2,841,746
Tax calculated at the PRC applicable statutory tax rates of 25% (2015: 25%)	538,142	710,436
Tax effects of the following assessed items:		
— Utilisation of previously unrecognised tax losses	(1,634)	(743)
— Effect of tax concessions and exemption	(229,038)	(318,864)
— Additional charge, net of over-provision, in respect of prior years	—	326,284
— Expenses not deductible for tax purposes	27,056	74,322
— Profits and losses attributable to a joint venture and associates	(5,406)	(8,227)
— Income not taxable for tax purposes	—	(2,442)
— Tax losses for which no deferred income tax asset was recognised	35,712	16,188
— Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	107,900	—
Income tax expense	472,732	796,954

PRC withholding tax on retained profits

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

13. 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 2016	2015
Profit attributable to owners of the Company *(RMB'000)*	1,708,239	2,062,378
Weighted average number of ordinary shares in issue for basic earnings per share *(Share'000)*	10,140,612	10,364,182
Basic earnings per share *(RMB cents per share)*	16.8	19.9

(b) Diluted

The Employee Share Award Scheme involves granting of existing shares held by the Trustee Co (a private trust company established in the British Virgin Islands and wholly-owned by Plenty Gold Enterprises Limited) and no new shares will be issued pursuant to the Employee Share Award Scheme.

There is no dilution to earnings per share during 2016 and 2015 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equals the basic earnings per share.

14. DIVIDENDS

The dividends paid in 2016 and 2015 were RMB607,059,000 and RMB279,832,000, respectively. A final cash dividend and a special cash dividend in respect of the year ended 31 December 2016 of RMB360,243,000 and RMB521,405,000, respectively were recommended by the Board and subject to approval at the forthcoming annual general meeting of the Company. These consolidated financial statements do not reflect this final cash dividend and special cash dividend.

Dividends approved and paid to owners of the Company during the year:

	2016 *RMB'000*	2015 *RMB'000*
Final cash dividend of RMB4.5 cents (2015: RMB1.3 cents) per ordinary share of the previous year paid during the year	463,750	134,734
Interim cash dividend of RMB1.4 cents (2015: RMB1.4 cents) per ordinary share declared and paid during the year	143,309	145,098
	607,059	279,832

Dividends proposed by the Company during the year:

Proposed final cash dividend of RMB3.8 (2015: RMB4.5 cents) cents per ordinary share	360,243	466,388
Proposed special cash dividend of RMB5.5 (2015: Nil) cents per ordinary share	521,405	—
	881,648	466,388

15. 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	
	2016	**2015**
	RMB'000	*RMB'000*
Property, plant and equipment	219,791	216,475
Commitment of additional capital injection to Renfang Medical Holdings Ltd.	—	156,124
Intangible assets — product development in progress	122,540	142,263
	342,331	514,862

(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	
	2016	**2015**
	RMB'000	*RMB'000*
Within 1 year	15,379	13,411
Between 2 to 5 years	18,180	54,352
More than 5 years	98,508	70,588
	132,067	138,351

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016	2015
	RMB'000	*RMB'000*
Opening balance at 1 January	1,189,118	358,491
Addition of associates (Note (i))	128,030	—
Capital contribution to an existing associate	65,564	122,719
Derecognition of associates (Note (ii))	(71,485)	—
Derecognition of a joint venture	—	675,000
Share of post-tax profit of associates and a joint venture	21,624	32,908
Dividend from Jilin Sichang Pharmaceutical Co., Ltd. (Note (iii))	(40,000)	—
Closing balance at 31 December	1,292,851	1,189,118

Notes:

(i) In June 2016, the Group subscribed for 33.0% equity interest in Hanzhou Junanyoudao Network Co., Ltd. and made a capital injection of RMB3,000,000 for its establishment.

In April 2016, the Group subscribed for 49.0% equity interest in Xi'an Tengyun Network Technology Co., Ltd and made a capital injection of RMB60,030,000 for its establishment, among which RMB60,000,000 was paid by cash and the remaining RMB30,000 was paid by the Group's 100.0% equity interests in its subsidiary, Beijing Yunxi Network Technology Co., Ltd as its consideration.

In June 2016, the Group acquired 10.0% equity interest in Jiangsu Antai Biotechnology Co., Ltd. from Yan Xiaojun at a consideration of RMB20,000,000.

(ii) The Group invested in and established Beijing Eazy-Tek Bio-Technology Co., Ltd ("**Beijing Eazy-Tek Bio**") and Beijing Eazy-Tek Investment Co., Ltd. ("**Beijing Eazy-Tek Investment**") with other investors in September 2014 and January 2016, respectively, and subscribed for 24.9% interest in Beijing Eazy-Tek Bio and 49.0% interest in Beijing Eazy-Tek Investment. According to the investment agreement, the Group should withdraw its investments in Beijing Eazy-Tek Bio and make a capital distribution to Beijing Eazy-Tek Investment, while the latter should complete the legal commercial modification registration. As Beijing Eazy-Tek Investment was unable to complete the registration and failed to fulfilled the agreement, the Group withdrew its capital and received a compensation from Beijing Eazy-Tek Investment.

(iii) In June 2016, the Group received dividend from Jilin Sichang Pharmaceutical Co., Ltd. in the amount of RMB40,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

I BUSINESS REVIEW

In 2016, the industry faced stronger controls over excessive medical insurance expenditures. Governments of various regions announced their "Key Monitored Drug List" (重點監控目錄), among which best-selling drugs of major therapeutic areas, including oncology, cardio-cerebral vascular ("**CCV**"), etc. have become hospital's main targets for budget control. Consequentially, sales of the Group's several best-selling products were also under pressure. Since the announcement of 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) by the State Council of the People's Republic of China (the "**State Council**") in April 2016, the "Two-invoice System"[1] has been implemented in multiple provinces. Faced with the "Two-invoice System", the Group, which adopts an indirect sales model, must make a series of adjustments and changes. In addition, the Group's core products Kelinao/Anjieli have been confronted with competing products with the same module from other companies.

Under such market condition, the Group timely adjusted its strategies in accordance with policy changes. Due to strategy adjustments and efficient execution, the trend of sales decline was mostly stabilized in the first half of 2016 as compared to the second half of 2015. In the second half of 2016, the sales achieved steady rebound, and thus secured a stable performance for the full year. Sales revenue of 2016 was RMB3,186 million, representing a slight increase of 0.6% year-on-year. Profit attributable to owners of the Company decreased by 17.2% year-on-year to RMB1,708 million. Excluding the one-off investment income from disposal of interests in a subsidiary last year, profit attributable to owners of the Company increased by 11.8% year-on-year.

According to the IMS Health Incorporated ("**IMS**") data, the Group maintained its no.1 position in the CCV prescription drug market with a market share of 11.9% in terms of hospital purchases. Moreover, the Group was ranked the fourth in China's entire hospital market with a growth rate of 8.9% (i.e. terminal market growth rate), which was slightly above the industry growth rate of 8.1% in 2016. This demonstrates the Group's solid foundation and stable leading position in China's CCV prescription drug market and the overall hospital market.

1. Under the "Two-invoice System", a drug manufacture 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.

In addition to a gradual recovery in sales, the Group also achieved impressive progress in new drug research and development ("**R&D**") during the Year. Not only did innovative patent drug R&D proceeded efficiently, the pace of generic drugs R&D also accelerated. While the manufacturing management and quality control further improved, production costs were also controlled effectively. Moreover, the Group's comprehensive administration gained remarkable progress and improvement, with its internal control over all operational activities becoming stricter and more regulated. All of the Group's operational goals were accomplished during the Year.

i. **Sales of Key Products**

(a) ***CCV Products***

During the Year, sales of CCV products accounted for 94.4% of the Group's total revenue, representing a slight increase of 0.2% year-on-year.

In view of the fact that sales of the core products Kelinao/Anjieli and Oudimei were hindered in large and medium-sized hospitals in first-and second-tier cities due to medical insurance expenditure control, the Group adjusted its marketing strategy to achieve market penetration by actively developing low-end markets while consolidating its position in existing high-end markets. As for products at the growth stage such as Yuanzhijiu, Yeduojia, Danshen Chuanxiongqin, and Yimaining, the strategy is to expand markets both horizontally and vertically, which means rapidly developing high-end markets in new regions along with the tender progress, while penetrating into low-end markets. The strategy has gained initial success within a year-round effort. As a result, the sales decline of Kelinao/Anjieli was narrowed to 18.6% year-on-year, and Oudimei achieved an upturn with an increase in sales of 12.0% year-on-year. Yuanzhijiu and Yeduojia recorded increases in sales of 8.6% and 26.7% year-on-year, respectively. Danshen Chuanxiongqin, Yimaining, Qu'Ao and Aogan have all retained positive growth, while products such as Chuanqing and Qingtong recorded sales decline due to competition and lowered selling prices.

Sales of key CCV products:

Product Name	Revenue for the year ended 31 December 2015 (RMB'000)	2016 (RMB'000)	(Change in sales year-on-year)
Kelinao/Anjieli (Cinepazide maleate injection)	607,401	494,624	-18.6%
Oudimei (Cerebroside-kinin injection)	729,815	817,239	12.0%
Yuanzhijiu (Troxerutin and cerebroprotein hydrolysate injection)	452,677	491,600	8.6%
Yeduojia (Compound trivitamin B for injection (II))	116,518	147,644	26.7%
Danshen Chuanxiongqin (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	218,353	222,414	1.9%
Yimaining (Alprostadil lipid emulsion injection)	243,121	247,341	1.7%
GM1 (Monosialotetrade osylganglioside sodium injection)	184,454	189,677	2.8%
Qu'Ao (Cerebroprotein hydrolysate)	108,813	124,000	14.0%
Chuanqing (Ligustrazine hydrochloride for injection)	81,985	66,770	-18.6%
Qingtong (Edaravone injection)	71,941	55,805	-22.4%
Guhong injection (Compound of aceglutamide and safflower extract)	137,419	120,733	-12.1%
Scutellarin glucose injection	3,175	3,291	3.6%

(b) ***Non-CCV products***

During the Year, newly-launched products achieved outstanding sales performance among our non-CCV products. For instance, sales of Roxatidine and Huineng increased by 136.7% and 237.5% year-on-year, respectively. Nilestriol, another newly-launched product, has entered the market with a promising start. Although sales of these new products were on a relatively small-scale due to limited market coverage, their contribution to the Group's total revenue will steady grow along with the tender progress and increasing coverage of hospitals. Ren'Ao (Oxcarbazepine) maintained stable growth with sales increased by 24.9%, whereas 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	Revenue for the year ended 31 December 2015 (RMB'000)	2016 (RMB'000)	Change in sales year-on-year
Ren'Ao (Oxcarbazepine)	22,754	28,417	24.9%
Bi'Ao (Ambroxol hydrochloride)	49,374	47,726	-3.3%
Zhuo'Ao (Ambroxol hydrochloride)	15,490	15,199	-1.9%
Clindamycin	35,599	19,808	-44.4%
Roxatidine	9,086	21,511	136.7%
Huineng (Monoammonium glycyrrhizinate and cysteine and sodium chloride injection)	2,386	8,054	237.5%

ii. **Marketing and Sales**

In 2016, the medical insurance expenditure control has extended to large and medium-sized hospitals in first and second-tier cities of all provinces, which hindered the Group's sales in high-end markets. The Group adjusted its marketing strategy to promote the development of low-end medical markets, while consolidating its business foundation in high-end markets. In accordance with the national policy orientation of hierarchical treatment system, the Group targeted at low-end markets such as county-level and community-level medical institutions, and dedicated its efforts in the development of more small-and medium-sized hospitals to lessen the pressure of sales in large and medium-sized hospitals of first-and second-tier cities. The number of hospitals covered by the Group's key products increased remarkably after a year of dedication. Kelinao and Oudimei have entered 6,055 and 4,535 hospitals, respectively, among which over 1,000 were newly developed during the Year. Yuanzhijiu, Danshen Chuanxiongqin, and Yeduojia have entered 3,438, 2,756, and 1,140 hospitals, respectively, with 300-1,000 of them newly developed.

Meanwhile, the Group increased the intensity of market development for its newly launched products during the past two years by seizing all tendering opportunities and entering the products into provincial reimbursement drug lists or essential drug lists. Roxatidine and Huineng have won tenders in fifteen and twelve provinces, respectively. Moreover, Huineng has entered six provincial reimbursement drug lists, and Roxatidine entered two. In addition, Nilestriol, Nicotinamide and Dopamine, etc. have also been progressively launched into the markets via tendering.

In order to facilitate the development of hospital markets, the Group conducted pragmatic and effective academic activities. The Group frequently organized small academic seminars and activities at hospital departmental levels, and also organized or participated regional and national large- and medium-scale conferences in relevant academic fields. This continually enhanced the brand image of the Group and its products. In 2016, the Group organized a total of 7,705 academic promotion activities, including 7,488 hospital departmental seminars and 217 provincial/municipal medium-scale and national 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 academic promotions, and further optimized and enriched its online contents. "Beijing Hospital Neurology Snapshot" was officially launched; a section of interactive activities for 3 key products, namely "Cerebroside-kinin Time", "Cinepazide Time", and "Troxerutin and cerebroprotein hydrolysate Time" was also launched and implemented smoothly. In 2016, participation counts of 45,716 was recorded for the Q&A section of "Cinepazide Time", and 32,941 and 19,335 were recorded for the Q&A section of "Cerebroside-kinin Time" and "Troxerutin and cerebroprotein hydrolysate Time", respectively. During the Year, there were 15,095 new registered members. By the end of December 2016, this platform attracted over 60,000 physicians as registered members and over 10 million visits. The online platform continually improved the Group's professional brand image in neurology, and also served as a new channel for the Group's academic promotion.

In 2016, the Group has commenced nine research projects on its core products. These research projects were conducted to further explore mechanisms, characteristics, and new clinical applications of the core products, thereby allowing physicians to have a better understanding and recognition of the Group's products. In addition, this is critical in extending the life cycles of these core products.

Confronted with the requirement of the "Two-invoice System" implementation, the Group discussed with its distributors to explore specific schemes in order to minimize its impacts on the sales. To date, the "Two-invoice System" has been implemented in Fujian, Beijing, Anhui, Liaoning, Heilongjiang, Hebei, Tianjin, Hainan, and some regions in Hubei and Shaanxi. The Group gathered experiences along the progress, which will facilitate the subsequent implementation of the "Two-invoice System" in other provinces.

To better adapt to market changes, the Group strengthened its marketing and sales system by enhancing the professionalism and marketing and sales capabilities of its sales staff. During the Year, the Group hired several outstanding marketing management personnel who have extensive experience in multi-national pharmaceutical companies, and established a marketing management center which comprises departments of medical affairs, academic promotion and pharmacovigilance, etc. At the same time, the Group introduced the SMART (which means specific, measurable, achievable, realistic and timed) market data analysis system which uses analyzed market data to determine a product's market potential and sales target, and in turn leads to an efficient resource allocation and market development.

iii. **New Drug R&D**

The Group achieved encouraging progress in the innovative drug R&D during the Year. Phase I clinical trials of innovative patent drug Pirotinib in the United States and China progressed smoothly. The Group obtained approval for Phase II/III clinical trials of Imigliptin Dihydrochloride from the China Food and Drug Administration ("**CFDA**") on 27 July 2016, and has commenced its Phase II clinical trials. Phase I clinical trials of Anaprazole Sodium was completed, and samples for Phase II/III clinical trials are being prepared for the application of clinical trial approval. In addition, Phase I clinical trials and their summary reports of Tylerdipine Hydrochloride and Benapenem, two other Category 1.1 innovative drugs, were completed. Ethics approval for Phase I clinical trials of Janagliflozin was granted, after which Phase I clinical trials will be officially commenced soon. In the second half of 2016, Sirotinib and Fadanafil, two Category 1.1 innovative patent drugs, were granted Phase I/II/III clinical trial approvals. The Group also filed investigational new drug application for clinical trial approval of Birociclib (XZP-3287), another Category 1.1 innovative oncology drug intended to treat brain tumor and breast cancer, in November 2016 and obtained acceptance. In addition, the collaboration with Japan's RaQualia Pharma Inc. in the development of novel analgesic patent drugs is proceeding smoothly with 40 new compounds synthesized and currently under screening, and among them, monomers that worth further investigation have been identified.

The R&D of generic drugs also gained impressive progress during the Year. The Group was granted 47 clinical trial approvals, among which 35 were for Category 3.1 generic drugs. Several projects have entered clinical trials and 26 projects have filed applications for production approvals and are expected to be launched into the market.

In addition, quality consistency evaluation undertaken by the generic drug R&D team progressed smoothly. Besides the ongoing projects on five oral formulations (Metformin tablets, Azithromycin capsules, Oxcarbazepine tablets, Simvastatin tablets and Candesartan Cilexetil tablets), a quality consistency evaluation on Nilestriol tablets has also been initiated.

In 2016, the Group was granted a total of 13 awards at national, provincial, and municipal levels for its new drug R&D, demonstrating the recognition and encouragement of the Group's R&D capabilities from government entities at all levels.

During the Year, the total R&D expenditures was RMB254 million, accounting for 8.0% of the total revenue, which increased by 4.9% compared to 2015.

iv. **Production Management and Quality Control**

The Group's production quality control center (the "**Center**") implemented systematic management over subsidiary manufacturing facilities. According to the new Good Manufacturing Practice (the "**GMP**") guidelines and new requirements from the CFDA, the Group established a stricter internal quality control system, and conducted internal quality audits and inspections to ensure the stringent implementation of the system. In 2016, the Center conducted six quality audits and two quality inspections at the manufacturing facilities, and required manufacturing facilities to submit rectification plans on the problems and defects found in the quality audits and inspections. These problems and defects should be improved and rectified immediately after the rectification plans were approved by the Center. The integration of quality audits and quality inspection improved the pertinence and effectiveness on the management of manufacturing facilities

In addition to the strict quality control, the Center also implemented effective control over the production cost of all manufacturing facilities. According to the annual cost control plan, the Center adopted a stringent assessment and approval process for the budgets of the manufacturing facilities on their energy consumption and material costs, experimental costs, and maintenance costs ("**Three Types of Costs**"). According to energy consumption data and the Three Types of Costs data reported by all manufacturing facilities, complemented by the relevant production volume, number of batches and approved annual consumption budget, the Group performed a systematic analysis on quarterly basis to ensure that the aggregate expenses were within the budget.

Under the strict systematic management, the manufacturing facilities continued to optimize their production management and quality control. Not only did the products reach premium quality, energy consumption and the Three Types of Costs were also controlled effectively. During the Year, the Group's internal qualification rate was 100%, and no unqualified samples were found during inspections conducted by external institutions (local drug testing departments). Also, there was no occurance of quality and safety-related incident.

v. **Internal Management**

In order to strengthen internal management, the Group established an audit and compliance center on the foundation of the audit division. The audit and compliance center not only undertakes audits and inspections but is also responsible for the overall compliance management of the Group. From 2015 to the end of 2016, the audit and compliance center completed the audits of financial management and internal controls for nine subsidiaries in total, and enforced rectification progress. All subsidiaries involved have accomplished rectification during the Year. The internal management of the Group was further strengthened in a stricter and more normative manner, and thus the compliance of the Group's operation was guaranteed.

In 2016, the Group's management completed a "comprehensive risk management" program with the assistance of the consulting team from Ernst & Young. This program identified, assessed, and analyzed potential risks the Group may face, provided corresponding strategies, and established a risk management system. Ultimately, this program provides a systematic scheme and a system safeguard for the standardization of risk management in the future.

II FUTURE PROSPECTS

i. **Industry Outlook**

It is expected that the government will continue to intensify the control over excessive medical insurance expenditure, which, in turn, will render hospitals to exercise tighter control on drug prescriptions to reduce the proportion of drug costs in their cost structure. On 9 January 2017, the National Health and Family Planning Commission announced the "Opinions on the implementation of the "two-invoice" policy in the procurement of pharmaceuticals in public medical institutions (tentative)", which marked the upcoming nationwide roll-out of the "Two-invoice System". There is no doubt that tender prices in all provinces will continue to decline. In addition, the release of new National Drug Reimbursement List and reimbursement prices, the nationwide implementation of medicine mark-ups removal as well as the second-round price negotiation will bring more pressure to the pharmaceutical industry in 2017.

Fueled by China's ageing population, rapid urbanization and universal medical insurance coverage, rigid demand in the domestic pharmaceutical market will continue to grow. According to IMS data, hospital drug procurements increased by 8.1% in 2016. Despite of lowered prices, the growth rate was raised by approximately three percentage points from 5.0% in 2015, demonstrating a persistent growth of rigid demand in pharmaceutical markets.

With increased visibility and implementation of the subsequent policies of the medical reform, the industry will step into a more regulated and healthy stage after experiencing short-term difficulties. It is expected that pharmaceutical enterprises with advantages in integrated operation or specialization will eventually gain growth opportunities and flourish in the long run.

ii. **Operation Strategies Adjustment**

In view of the current market situation and policy environment, the Group, on one hand, will adjust its short-term strategy in accordance with the policy changes, which is to solve the practical problems in the implementation of the "Two-invoice System" while maintaining its operation stability of the upcoming two years under the market condition with strict control over medical insurance expenditure. On the other hand, the Group will identify a future direction, towards where the long-term strategy will be adjusted.

Growth Strategies

1) ***Continual development of low-end markets to fully tap the potential of existing products***

The development of low-end markets has achieved initial success, and thus it will be continually implemented in 2017. In order to fully tap the market potential, the Group will make specific strategies and targets for products in different stages in terms of market development, and implement intensive market promotion as well as refined management. A goal of 8,000 to 10,000 hospitals was formulated for the Group's key products to ensure a universal coverage of the national medical institutions and a maximum output. Meanwhile, the Group will make efforts to consolidate the foundation of its key products in first- and second-tier cities.

2) ***Further enrichment of product resources portfolio***

The Group progressively launched more new products including Nilestriol, Verapamil, Nicotinamide and Dopamine subsequent to the launch of Roxatidine, Huineng, Clindamycin and Metronidzole. The Group will further enrich its product portfolio by launching new products selected from the product reserve as well as those having received production approvals. Along with the tender progress across provinces, contribution of these products is expected to grow gradually, which will help alleviate the burden on sales growth of mature products.

3) ***Making the best efforts on the Group's transition and adjustments for the "Two-invoice System"***

In order to maintain the stability of the marketing and sales system, the Group will continue to adopt its distribution sales model, which requires distributors to register compliant contract service organizations to provide the Group with terminal sales service as independent third parties while cooperating with the Group's internal marketing team. In this way, normal operation of the Group's marketing and sales system is guaranteed while the requirements of the "Two-invoice System" are met.

In order to minimize the impact of the "Two-invoice System", a hybrid marketing model will be adopted in some regions. The Group will selectively hire some small distributors as its in-house sales staff, and will also build direct sales teams in markets where it has no or little presence, thereby ensuring a smooth transition of the sales network to the "Two-invoice System".

In the meantime, the Group will strengthen its construction of distribution and delivery channels. Specifically, the Group will extend its delivery channels from high- and middle-end markets to low-end markets by collaborating with suitable logistics companies, laying the foundation for the Group's development in those markets.

Long-term Development Strategies

1) ***Establishing a marketing and sales system driven by academic promotion***

The Group will build a greater marketing and sales system led by academic promotion, which is different from the traditional sales-driven model. Under such system, a product's market position is built upon academic research results and market analysis data. Driven by academic promotion while supplemented by sales service, the marketing and sales system will be managed in a scientific, systematic and digitized manner.

The Group will intensify the construction of academic promotion team, optimize the sales service system, and grasp the key business to maintain a high market efficiency. Meanwhile, the Group will explore a new marketing and sales model that fits the future trend of market development.

2) ***Obtaining high-quality product resources through multiple channels***

The Group will enrich and enhance its product resources through both R&D and Mergers & Acquisitions ("**M&A**").

In order to accelerate the pace of R&D and enhance the R&D capabilities, the Group will intensify its collaboration with world leading innovative companies or institutions. This will not only optimize the Group's R&D pipeline, but will also benefit its R&D teams by maintaining their R&D capabilities at an internationally competitive level. In the process of R&D, certain key research projects will be selected mainly based on their clinical values, followed by resources allocation and investment to expedite their commercialization.

On the other hand, M&A can be conducted more flexibly in broader regions and more therapeutic areas. Under the strategic framework of the Group's growth and development, appropriate M&A will enhance and enrich the Group's R&D pipeline and existing product resource, or build up new therapeutic fields for the Group's development. M&A will be considered as an important way for the Group to expand its product resources.

3) ***Combination of organic growth and external expansion***

Rapid development of the Group resulted from an effective combination of organic growth and external expansion. At present, the Group is better prepared for business consolidation supported by its strong marketing capabilities, superior R&D platforms of innovative and generic drugs, and advanced manufacturing system, as well as all kinds of business supportive services for M&A and collaboration programs. It is believed that the integration of organic growth and external expansion will boost the Group's overall business development.

In addition to maintaining its organic growth, the Group will keep seeking growth opportunities via M&A and cooperation to promote its development.

iii. **Future Outlook**

In 2017, the Group will learn from experiences of continuous adjustment in accordance with policy and market changes, avert risks, and maintain operational stability. Meanwhile, the Group will continue to strengthen its internal management and costs control, in order to maintain a firm operational foundation and to achieve a steady growth.

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

III FINANCIAL REVIEW

Turnover

During the Year, the Group continued to strengthen its CCV drug business while promoting sales of its products in other therapeutic areas. Total revenue increased by approximately RMB18.5 million or 0.6% from RMB3,167.2 million in 2015 to RMB3,185.7 million in 2016. Growth rate was relatively slow due to one of the major products, Kelinao (Cinepazide maleate injection), had keen competition in the market. In order to compete with the lowered supply prices at different degrees of other competing products, motivation of the distributors were increased through lowering the supply price. Furthermore, control on total expenditure for medical insurance had also affected revenue of the Group.

During the Year, sales of CCV drugs for the Year amounted to approximately RMB3,006.0 million, representing an increase of approximately RMB5.3 million when compared with 2015, which accounted for approximately 94.4% of the Group's total revenue.

Revenue derived from non-CCV drugs increased by approximately 7.9% from RMB166.5 million for the year ended 31 December 2015 to RMB179.7 million in the Year, accounting for approximately 5.6% of the Group's total revenue.

Cost of sales

The Group's cost of sales for the Year amounted to approximately RMB996.8 million, accounting for approximately 31.3% of the total revenue.

Gross profit

Gross profit of RMB2,188.9 million was recorded for the Year, representing a decrease of approximately RMB39.1 million when compared with RMB2,228.0 million for the year ended 31 December 2015. Overall gross profit margin decreased from 70.3% for the year ended 31 December 2015 to 68.7% for the Year, which was due to lowered selling price of our products, especially certain key products, as a result of intensified competition.

Other net gains

Other net gains decreased by RMB54.4 million from RMB540.7 million for the year ended 31 December 2015 to RMB486.3 million for the Year. This was mainly due to the decrease in government grants received as compared with the year ended 31 December 2015.

Distribution costs

Distribution costs decreased by RMB9.3 million to RMB145.8 million for the Year as compared with the year ended 31 December 2015.

Administrative expenses

Administrative expenses increased by 18.6% from RMB455.9 million for the year ended 31 December 2015 to RMB540.5 million for the Year, in which, R&D cost increased 7.3% from RMB151.8 million (including labor cost) as at 31 December 2015 to RMB162.9 million (including labor cost) for the Year. The increase was primarily due to the significant increase of payroll as compared to last year.

Other Expenses

Other expenses decreased from RMB104.5 million for the year ended 31 December 2015 to RMB29.0 million for the Year. The decrease was mainly due to the decrease of tax surcharge of the Year.

Profit before income tax

Due to the aforesaid, the Group's profit before income tax decreased by 24.3% from RMB2,841.7 million for the year ended 31 December 2015 to RMB2,152.6 million for the Year.

Income tax expenses

The Group's income tax expenses decreased by 40.7% from RMB797.0 million for the year ended 31 December 2015 to RMB472.7 million for the Year, due to the one-off effect from additional income tax expenses incurred from a subsidiary in 2015.

Profit for the Year

Due to the aforesaid, and the one-off gain from disposal of interest in Jilin Sichang in 2015, the Group's net profit decreased by 17.8% from RMB2,044.8 million for the year ended 31 December 2015 to RMB1,679.8 million for the Year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased by 17.2% from RMB2,062.4 million for the year ended 31 December 2015 to RMB1,708.2 million for the Year. However, excluding an one-off gain of RMB535.0 million (net of tax) from disposal of interests in a subsidiary of the Company in 2015, profit attributable to the owners of the Company increased by 11.8%.

Non-controlling interests

Non-controlling interests increased from RMB17.6 million for the year ended 31 December 2015 to RMB28.4 million for the Year.

Liquidity and financial resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to RMB2,407.1 million (31 December 2015: RMB2,282.4 million) and available-for-sale financial assets amounted to RMB1,710.0 million (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 reputable banking institutions to invest extra cash. According to such agreements, during the Year, the total investment principals of members of the Group amounted to RMB1,695.1 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 PRC reputable banks. 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 RMB1,695.1 million plus interests of approximately RMB14.9 million amounted to approximately RMB1,710.0 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2016. As at the date of this announcement, sold/repaid investment principal amounted to RMB979.4 million.

Save as disclosed above, the Group did not have other liabilities and bank loans, as a result of which, its gearing ratio (net debt to equity attributable to owners of the Group plus net debt) is less than 1%.

The Group has sufficient cash as at 31 December 2016. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December 2016	**As at 31 December 2015**
	RMB'000	*RMB'000*
	Audited	*Audited*
Cash and cash equivalents	2,407,073	2,282,370
Less: Borrowings	(8,280)	(8,280)
	2,398,793	2,274,090

Trade and other receivables

The Group's trade receivables consist of credit sales of our products to be paid by our distributors. Other receivables consist of other receivables, receivable notes, receivables and prepayments to suppliers. The Group's trade and other receivables were RMB877.3 million as at 31 December 2016, representing a decrease of approximately RMB95.0 million when compared with trade and other receivables of RMB972.3 million as at 31 December 2015, which was mainly due to decrease in other receivables for the Year.

Inventory

Our inventory as at 31 December 2016 amounted to RMB200.7 million (as at 31 December 2015: RMB233.0 million). Inventory turnover days were 78 days (2015: 79 days). There were no inventory impairment for the Year.

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 2016, the net book value of property, plant and equipment amounted to RMB2,104.3 million, representing an increase of RMB52.9 million, or approximately 2.6%, as compared with the year ended 31 December 2015. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Goodwill

The Group's goodwill arose from the acquisition of subsidiares. As at 31 December 2016, net carrying amount of goodwill was RMB2,247.7 million (31 December 2015: RMB2,247.7 million)

Intangible assets

The Group's intangible assets mainly consist of customer relationships, patents, deferred development costs and product development in progress. The deferred development costs and product development in progress mainly represent the acquisition of certain pharmaceutical R&D projects from external research institutions and its self-developed R&D projects. As at 31 December 2016, net intangible assets amounted to RMB579.0 million (31 December 2015: RMB569.3 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and payables to employee remuneration. As at 31 December 2016, trade and other payables amounted to RMB827.3 million, representing an increase of approximately RMB163.0 million as compared with 31 December 2015. The increase was due to the increase in payables for inventory procurement, payables for value added tax and additional tax, prepayments to suppliers and payables for employee salary.

Contingent liabilities and guarantees

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

Off-balance sheet commitments and arrangements

As at 31 December 2016, 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 engage in the provision of leasing, hedging or R&D services to the Group.

Capital commitment

As at 31 December 2016, the Group had a total capital commitment of RMB342.3 million, mainly set aside for the acquisition of 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 entering into the agreement related to 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.

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

Foreign exchange risk

RMB is the functional currency of the Group. The financial instruments of the Group are denominated in RMB. The Group is subject to United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**") foreign exchange risk from certain USD or HKD denominated cash balances. Nevertheless, dividend payment in foreign currency converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2016, the Group had no outstanding borrowings denominated in a foreign currency.

For the year ended 31 December 2016, 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. During the Year, our capital expenditures amounted to RMB364.5 million, of which RMB241.1 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets was RMB38.3 million, and the remaining RMB85.1 million was spent on land use rights.

For the Year, capital injection for R&D was RMB91.1 million, in which, expenditure in property, plant and equipment was RMB55.4 million, purchased and self-developed intangible assets was RMB35.7 million.

Material investment, 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 Holding Limited ("**Euromax**") to inject capital into Renfang Medical Holdings Ltd., an associate. The associate is 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 the associate was USD26.6 million (equivalent to RMB172.4 million) (the "**Capital Injection**"). The Capital Injection was contributed by the associate partners with respect to their shareholdings in the associate proportionally (i.e. USD6.3 million (equivalent to RMB40.9 million) by Euromax, USD10.1 million (equivalent to RMB65.6 million) by NHPEA IV Heath and USD10.1 million (equivalent to RMB65.6 million) by Sun Moral).

The Capital Injection was used by the joint venture company to fund land acquisition for the expansion of a subsidiary hospital and its working capital needs.

Pledge of assets

As at 31 December 2016, 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 2016, the Group had 3,026 employees. For the Year, total salary and related costs of the Group was approximately RMB316.2 million (as at 31 December 2015: RMB248.8 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 of the Company (the "**Shareholders**").

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Hong Kong Stock Exchange Limited (the "**Stock Exchange**") 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

During the Year, the Company repurchased 777,498,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HK$1,422.1 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
4 July 2016	45,411,000	1.55	1.48	69.3	59.3
5 July 2016	34,805,000	1.57	1.53	54.2	46.3
6 July 2016	26,149,000	1.62	1.54	41.0	35.0
12 July 2016	6,979,000	1.70	1.67	11.9	10.1
13 July 2016	9,947,000	1.75	1.71	17.3	14.8
15 July 2016	19,424,000	1.80	1.78	34.8	29.8
18 July 2016	50,160,000	1.73	1.67	85.7	73.2
19 July 2016	20,700,000	1.82	1.70	37.1	31.7
20 July 2016	16,667,000	1.87	1.85	31.1	26.6
21 July 2016	36,870,000	1.87	1.84	68.5	58.6
22 July 2016	22,186,000	1.91	1.88	42.3	36.2
17 October 2016	21,612,000	1.78	1.68	37.4	32.2

Date of repurchase	Number of ordinary shares repurchased	Repurchasing price for each share Highest HK$	Lowest HK$	Aggregate consideration paid HK$ Million	Equivalent to RMB Million
18 October 2016	31,475,000	1.81	1.77	56.6	48.7
19 October 2016	15,484,000	1.82	1.79	28.1	24.2
20 October 2016	16,627,000	1.84	1.82	30.5	26.2
25 October 2016	29,046,000	1.91	1.84	55.0	47.3
26 October 2016	16,387,000	1.92	1.89	31.4	27.0
27 October 2016	9,296,000	1.92	1.90	17.8	15.4
28 October 2016	7,313,000	1.90	1.86	14.0	11.9
31 October 2016	8,000,000	1.88	1.87	15.0	12.9
1 November 2016	8,210,000	1.91	1.87	15.6	13.6
2 November 2016	12,205,000	1.92	1.88	23.3	20.3
7 November 2016	15,000,000	1.90	1.87	28.3	24.7
8 November 2016	14,935,000	1.91	1.88	28.4	24.8
9 November 2016	4,579,000	1.89	1.86	8.6	7.5
11 November 2016	11,290,000	1.93	1.91	21.7	19.0
15 November 2016	10,000,000	1.92	1.89	19.1	16.7
16 November 2016	10,000,000	1.93	1.90	19.2	16.8
17 November 2016	15,000,000	1.92	1.89	28.7	25.0
21 November 2016	10,000,000	1.91	1.89	19.0	16.6
22 November 2016	13,387,000	1.94	1.90	25.7	22.4
23 November 2016	17,666,000	1.96	1.93	34.4	30.0
28 November 2016	15,061,000	1.99	1.94	29.7	25.9
29 November 2016	20,590,000	2.04	2.01	41.7	36.4
30 November 2016	1,663,000	2.06	2.05	3.4	3.0
1 December 2016	1,058,000	2.06	2.06	2.2	1.9
2 December 2016	10,935,000	2.09	2.06	22.7	20.2
5 December 2016	22,012,000	2.10	2.07	46.0	40.9
9 December 2016	9,873,000	2.18	2.16	21.5	19.1
12 December 2016	20,000,000	2.15	2.09	42.7	37.9
21 December 2016	7,490,000	2.07	2.04	15.4	13.7
22 December 2016	8,563,000	2.10	2.08	17.9	15.9
23 December 2016	5,000,000	2.10	2.09	10.5	9.3
30 December 2016	9,810,000	2.16	2.08	20.9	18.6
Subtotal:	**777,498,000**			**1,422.1**	**1,229.4**

Date of repurchase	Number of ordinary shares repurchased	Repurchasing price for each share Highest HK$	Lowest HK$	Aggregate consideration paid HK$ Million	Equivalent to RMB Million
5 January 2017	17,000,000	2.23	2.21	37.8	33.8
6 January 2017	5,000,000	2.20	2.18	11.0	9.8
9 January 2017	154,000	2.19	2.19	0.3	0.3
13 January 2017	13,002,000	2.19	2.15	28.4	25.4
16 January 2017	4,830,000	2.18	2.15	10.5	9.4
19 January 2017	8,888,000	2.24	2.21	19.8	17.8
6 February 2017	2,907,000	2.30	2.24	6.6	5.9
13 February 2017	6,458,000	2.50	2.47	16.1	14.3
16 February 2017	7,277,000	2.57	2.46	18.3	16.2
17 February 2017	13,000,000	2.53	2.43	32.2	28.5
20 February 2017	9,504,000	2.49	2.42	23.4	20.7
21 February 2017	5,506,000	2.54	2.49	13.9	12.3
22 February 2017	10,000,000	2.57	2.49	25.5	22.5
23 February 2017	3,076,000	2.59	2.55	7.9	7.0
Subtotal:	**106,602,000**			**251.7**	**223.9**
Total:	**884,100,000**			**1,673.8**	**1,453.3**

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 year ended 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

From 5 January 2017 to 23 February 2017, the Company repurchased 106,602,000 shares through the Stock Exchange at a total consideration of approximately RMB223,864,000. Such shares and 30,863,000 remaining treasury shares as of 31 December 2016 have been cancelled on 9 March 2017.

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

CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has complied with all the applicable code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules.

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. Having made specific enquiries, all Directors confirmed that they have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") in accordance with the requirements of Rule 3.21 of the Listing Rules and with written terms of reference in compliance with 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 (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 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 the Board.

The annual results of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are, among others, to review the structure, size and composition of the Board, to assess the independence of the independent non-executive Directors and to make recommendations 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 (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Tsang Wah Kwong.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") in accordance with the requirements of Rule 3.25 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are, among others, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendations to the Board on the Group's policy and structure for remuneration of all our Directors and senior management. As at the date of this announcement, the Remuneration Committee consists of one executive Director (Dr. Che Fengsheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Zhu Xun.

RISK MANAGEMENT COMMITTEE

The risk management committee of the Company (the "**Risk Management Committee**") was established on 13 December 2015 with written terms of reference. The primary duties of the Risk Management Committee are, among others, to review the Company's risk management, internal control system and environmental, social and governance ("**ESG**") strategies, policies, guidelines and procedures and to review the effectiveness of the work on risk management, internal control systems and ESG. As at the date of this announcement, the Risk Management Committee consists of two executive Directors (Dr. Guo Weicheng and Mr. Meng Xianhui) and two independent non-executive Directors (Mr. Patrick Sun and Mr. Tsang Wah Kwong), and is chaired by Mr. Meng Xianhui.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Friday, 16 June 2017. 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 in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Monday, 12 June 2017 to Friday, 16 June 2017 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 9 June 2017.

DIVIDENDS

The Board recommended the declaration and payment of a final cash dividend of RMB3.8 cents per share (equivalent to HK$4.2 cents per share) and a special cash dividend of RMB5.5 cents per share (equivalent to HK$6.1 cents per share) for the year ended 31 December 2016 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming Annual General Meeting. Together with an interim cash dividend of RMB1.4 cents per share, the total cash dividend for the year ended 31 December 2016 will be RMB10.7 cents per share.

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

The register of members of the Company will be closed from Monday, 26 June 2017 to Wednesday, 28 June 2017 (both dates inclusive). In order to qualify for the final cash dividend and the special cash dividend, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 23 June 2017. The final cash dividend and the special cash dividend, subject to the approval of the Shareholders at the Annual General Meeting, will be payable on around Wednesday, 5 July 2017 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 28 June 2017.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by EY 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 EY 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 2016 will be dispatched to Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to express its sincere appreciation to our 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.
Che Fengsheng
Chairman and Executive Director

Hong Kong, 28 March 2017

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.

* *For identification purpose only*