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 2017

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 2017 (the "**Period**") together with the comparative figures for the six months ended 30 June 2016. 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**").

INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	**2016**	**Change**
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue	1,440,310	1,387,672	3.8%
Gross profit	1,018,367	927,421	9.8%
Operating profit	968,220	877,909	10.3%
Profit attributable to owners of the Company	842,456	735,968	14.5%
Key Financial Indicators			
Gross profit margin	70.7%	66.8%	
Net profit margin	58.5%	53.0%	
Earnings per share - Basic (RMB cents)	8.87	7.10	
Receivable Turnover (days)	74	62	
Inventory Turnover (days)	92	98	
Interim dividend per share (RMB cents)	1.8	1.4	

- Revenue of the Group increased by 3.8% to approximately RMB1,440.3 million (for the six months ended 30 June 2016: approximately RMB1,387.7 million).

- Gross profit margin increased to 70.7% (for the six months ended 30 June 2016: 66.8%), mainly due to products achieving greater economies of scale, streamlined production processes and effective cost control measures resulted from systematic management in the Group's production units.

- Profit attributable to owners of the Company increased by 14.5% to approximately RMB842.5 million (for the six months ended 30 June 2016: approximately RMB736.0 million).

- Basic earnings per share increased to approximately RMB8.87 cents (for the six months ended 30 June 2016: approximately RMB7.10 cents).

- An interim dividend of RMB1.8 cents per share was declared by the Board (for the six months ended 30 June 2016: RMB1.4 cents per share).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2017	As at 31 December 2016
		RMB'000	*RMB'000*
		Unaudited	Audited
Assets			
Non-current assets			
Property, plant and equipment	4	2,202,784	2,104,299
Investment properties	4	28,214	29,103
Goodwill	4	2,719,869	2,247,728
Intangible assets	4	1,256,790	578,998
Land use rights	4	701,561	647,769
Investments accounted for using the equity method	7	1,329,096	1,272,851
Deferred income tax assets	5	114,180	35,883
Available-for-sale financial assets	16	20,000	20,000
Other non-current assets		103,663	56,000
		8,476,157	6,992,631
Current assets			
Inventories		228,509	200,680
Trade and other receivables	6	970,641	877,256
Available-for-sale financial assets	16	2,214,996	1,709,964
Cash and cash equivalents		1,609,260	2,407,073
		5,023,406	5,194,973
Total assets		13,499,563	12,187,604

	Notes	As at 30 June 2017 *RMB'000* Unaudited	As at 31 December 2016 *RMB'000* Audited
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	8	78,233	79,443
Treasury shares	8	—	(255)
Share premium	8	4,093,317	4,344,229
Other reserves		140,417	137,096
Retained earnings		6,302,570	6,340,925
		10,614,537	10,901,438
Non-controlling interests		68,015	69,655
Total equity		10,682,552	10,971,093
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	5	251,875	74,094
Other non-current liabilities	11	93,054	103,924
		344,929	178,018
Current liabilities			
Trade and other payables	10	2,208,162	827,306
Current income tax liabilities		224,925	158,800
Borrowings		3,500	8,280
Other current liabilities	11	35,495	44,107
		2,472,082	1,038,493
Total liabilities		2,817,011	1,216,511
Total equity and liabilities		13,499,563	12,187,604

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
	Notes	**2017**	**2016**
		RMB'000	*RMB'000*
		Unaudited	Unaudited
Revenue	12	1,440,310	1,387,672
Cost of sales		(421,943)	(460,251)
Gross profit		1,018,367	927,421
Other income	12	66,470	66,946
Other gains — net	12	134,543	166,087
Gain on derecognition of a subsidiary		125,771	—
Distribution costs		(71,025)	(55,862)
Administrative expenses		(269,004)	(216,662)
Other expenses		(36,902)	(10,021)
Operating profit		968,220	877,909
Finance expenses		—	(105)
Share of profit of investments accounted for using the equity method		28,966	12,664
Profit before income tax		997,186	890,468
Income tax expense	13	(156,716)	(172,516)
Profit for the period		840,470	717,952
Attributable to:			
Owners of the Company		842,456	735,968
Non-controlling interests		(1,986)	(18,016)
		840,470	717,952
Earnings per share attributable to ordinary equity holders of the Company during the period			
- Basic and diluted earnings per share (expressed in RMB cents per share)	14	8.87	7.10

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Profit for the period	840,470	717,952
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	36,352	48,950
Reclassification adjustments for gains included in the consolidated statement of profit or loss - gain on disposal	(33,920)	(39,119)
Other comprehensive income for the period, net of tax	2,432	9,831
Total comprehensive income for the period	842,902	727,783
Attributable to:		
Owners of the Company	844,888	745,799
Non-controlling interests	(1,986)	(18,016)
	842,902	727,783

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital *RMB'000*	**Treasury Shares** *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 for the period								
Changes in fair value of available-for-sale investments, 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:								
- value of employee service (Note 9(ii))	—	—	—	2,297	—	2,297	—	2,297
Repurchase of shares	—	(484)	(81,272)	—	—	(81,756)	—	(81,756)
Cancellation of treasury shares	(484)	484	—	—	—	—	—	—
Final 2015 dividend	—	—	—	—	(463,750)	(463,750)	—	(463,750)
Capital injection from non-controlling shareholders of a subsidiary	—	—	—	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 CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the Company							
	Share capital	**Treasury Shares**	**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*	*RMB'000*
Balance as at 1 January 2017	79,443	(255)	4,344,229	137,096	6,340,925	10,901,438	69,655	10,971,093
Profit for the Period	—	—	—	—	842,456	842,456	(1,986)	840,470
Other comprehensive income for the Period								
Changes in fair value of available-for-sale investments, net of tax	—	—	—	2,432	—	2,432	—	2,432
Total comprehensive income	—	—	—	2,432	842,456	844,888	(1,986)	842,902
Employees share award scheme:								
- value of employee service (Note 9(ii))	—	—	—	889	—	889	—	889
Repurchase of shares	—	(955)	(250,912)	—	—	(251,867)	—	(251,867)
Cancellation of treasury shares	(1,210)	1,210	—	—	—	—	—	—
Final 2016 dividend (Note 15)	—	—	—	—	(359,901)	(359,901)	—	(359,901)
Special cash dividend (Note 15)	—	—	—	—	(520,910)	(520,910)	—	(520,910)
Disposal of a subsidiary	—	—	—	—	—	—	346	346
Balance as at 30 June 2017 (unaudited)	78,233	—	4,093,317	140,417	6,302,570	10,614,537	68,015	10,682,552

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	1,076,744	1,307,947
Income tax paid	(174,032)	(247,157)
Net cash flows from operating activities	902,712	1,060,790
Cash flows from investing activities		
Capital contribution to an associate	(19,999)	(3,050)
Net cash inflow from disposal of a subsidiary	49,646	—
Net cash inflow from disposal of an associate	—	30,336
Acquisition of a subsidiary	(799,995)	—
Purchases of items of property, plant and equipment	(195,294)	(101,714)
Purchase of intangible assets	(14,467)	(32,679)
Purchase of available-for-sale financial assets	(4,131,600)	(4,529,000)
Proceeds from disposal of available-for-sale financial assets	3,629,000	4,014,000
Proceeds from disposal of property, plant and equipment	131	—
Interest received	33,920	39,119
Net cash flows used in investing activities	(1,448,658)	(582,988)
Cash flows from financing activities		
Repurchase and cancellation of shares	(251,867)	(81,756)
Interest paid	—	(105)
Net cash flows used in financing activities	(251,867)	(81,861)
Net (decrease)/increase in cash and cash equivalents	(797,813)	395,941
Cash and cash equivalents at beginning of the period	2,407,073	2,282,370
Cash and cash equivalents at end of the period	1,609,260	2,678,311

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2017

1. CORPORATE 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 research and development, manufacture 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 statements are presented in thousand Renminbi ("**RMB**"), unless otherwise stated. The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 21 August 2017.

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

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the new standards and interpretations effective on 1 January 2017,

(a) ***Revised standards adopted by the Group***

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 Included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*

The adoption of these revised IFRSs had no significant financial effect on these financial statements.

(b) ***New and revised IFRSs not yet adopted***

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Lease*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22 Included in *Annual Improvements 2014-2016 Cycle*	*Foreign Currency Transactions and Advance Consideration*[1]
Amendments to IFRS 1 Included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[1]

Amendments to IAS 28 Included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates and Joint Ventures*[1]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors of the Company. The Executive Directors review the Group's internal reports 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, manufacture and sale of pharmaceutical products in Mainland China. During the six months ended 30 June 2017, 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 2016: 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, GOODWILL AND LAND USE RIGHTS

	Property, plant and equipment	Investment properties	Intangible assets	Goodwill	Land use rights
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2017					
Opening amount as at 1 January 2017	2,104,299	29,103	578,998	2,247,728	647,769
Additions	211,999	—	9,052	—	—
Acquisition of a subsidiary	48,332	—	733,130	492,933	61,623
Disposals	(57)	—	—	—	—
Disposal of a subsidiary	(80,060)	—	—	(20,792)	—
Depreciation and amortisation	(81,729)	(889)	(64,390)	—	(7,831)
Closing amount as at 30 June 2017 (Unaudited)	2,202,784	28,214	1,256,790	2,719,869	701,561
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

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

As at 30 June 2017, the ownership certificates of buildings ("**Building Ownership Certificates**") of the Group with a net book value of RMB685,538,000 (31 December 2016: RMB639,911,000) had not been obtained by the Group. Land use rights certificates of land with a net book value of approximately RMB392,989,000 (31 December 2016: RMB400,660,000) have not been obtained by the group. The directors of the Company consider that there is no legal restriction for the Group to apply for and obtain the Building Ownership Certificates and the land use rights certificates. 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 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

1) Deferred income tax assets

	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	35,883	18,146
Credited to profit	78,297	3,828
Closing balance at 30 June	114,180	21,974

2) Deferred income tax liabilities

	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	74,094	125,876
Deferred tax arising from acquisition of a subsidiary	182,186	—
Credited to profit	(4,405)	(2,591)
Payment of withholding tax	—	(37,000)
Closing balance at 30 June	251,875	86,285

6. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2017	**31 December 2016**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables — third parties	164,808	97,455
Notes receivables	430,613	493,731
Prepayments to suppliers	130,054	172,404
Amount due from an associate (i)	21,976	13,500
Amount due from a joint venture (ii)	76,188	74,519
Amount due from other related party	9,673	9,673
Other receivables	47,329	15,974
Amount receivable for disposal of equity interests of a subsidiary	90,000	—
	970,641	877,256

(i) The receivable from an associate, Beijing Ruiye Drugs Manufacture Co. Ltd. ("**Beijing Ruiye**"), was secured by 10% share of Beijing Ruiye's parent company Beijing Ruiye Economic Technology Development Co., Ltd.. Interest is charged at 5% annually.

(ii) The amount receivable from a joint venture, Jilin Sichang Pharmaceutical Co., Ltd. ("**Jilin Sichang**"), including a loan principal of RMB69,400,000 and interest amounting to RMB6,788,000, was unsecured and repayable in full on demand. Interest is charged at 4.75% annually.

Trade and other receivables that were neither past due nor impaired were assessed by referring 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 2017	**31 December 2016**
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Receivables		
Within 3 months	159,652	93,942
3 to 6 months	1,937	3,211
6 to 12 months	3,003	3
More than 12 months	216	299
	164,808	97,455

7. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	As at	
	30 June 2017	**31 December 2016**
	RMB'000	*RMB'000*
	Unaudited	Audited
Share of net assets	880,625	824,380
Goodwill on acquisition	448,471	448,471
	1,329,096	1,272,851

8. SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of Shares *(thousands)*	Share capital *RMB'000*	Treasury shares *RMB'000*	Shares premium *RMB'000*	Total *RMB'000*
As at 1 January 2016 (audited) (HK$0.01 per share)	10,364,182	85,610	—	5,574,848	5,660,458
Repurchase and cancellation of shares	(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
As at 1 January 2017 (audited) (HK$0.01 per share)	9,586,684	79,443	(255)	4,344,229	4,423,417
Repurchase of shares (Note (i))	(115,602)	—	(955)	(250,912)	(251,867)
Cancellation of treasury shares (Note (i))	—	(1,210)	1,210	—	—
As at 30 June 2017 (unaudited) (HK$0.01 per share)	9,471,082	78,233	—	4,093,317	4,171,550

Note:

(i) The Company purchased 115,602,000 of its shares on the Stock Exchange at a total consideration of HK$282,283,000 (equivalent to RMB251,867,000). As at 30 June 2017, these shares were cancelled.

9. SHARE-BASED PAYMENT

(i) Share award scheme

An award scheme for the purpose of incentivising the management of the Company (the "**Employees Share Award Scheme**" or the "**Scheme**") has been adopted by certain shareholders of the Company (namely, Plenty Gold Enterprises Limited ("**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 Employees 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 Employees 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; and MSPEA Pharma

Holdings B.V. has reserved and set aside an additional 3,750,000 shares, all of which are being held by the Trustee Co. as trustee for the Employees Share Award Scheme. The Employees Share Award Scheme involves granting of existing shares held by the Trustee Co. and no new shares will be issued pursuant to the Employees 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 a contribution from the major shareholders. No new share will be issued by the Company under the Employees Share Award Scheme and there is no dilution impact to earnings per share calculation as a result of the Employees Share Award Scheme.

Under the Employees 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, 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.

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

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

On 28 June 2016, the Group modified the share award schemes. The remaining 31,448,172 share options, which was granted to but not yet exercised by 234 employees were replaced by new share awards with an exercise price of HK$1.57 per share award.

(ii) Share awards movement

The following share awards were outstanding under the Scheme during the periods:

	Average exercise price in HK$ per share award	Awards (in thousands) 2017	2016
At 1 January	3.19	—	32,835
At 1 January	0.7	—	4,100
At 1 January	1.57	5,403	—
Forfeited	0.7	—	(4,100)
Forfeited	3.19	—	(1,387)
Modified	3.19	—	(31,448)
Granted	1.57	—	31,448
Exercised	1.57	(1,545)	(2,333)
Forfeited	1.57	(239)	—
At 30 June		3,619	29,115

Share awards outstanding have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK$ per share award	Number of outstanding awards granted (thousands) 30 June 2017	31December 2016	Number of outstanding vested and exercisable awards (thousands) 30 June 2017	31 December 2016
28 June 2021	1.57	3,619	5,403	—	103

Out of the 3,619,000 (31 December 2016: 5,403,000) outstanding awards, no (31 December 2016: 103,000) awards were exercisable as at 30 June 2017.

During the Period, total expense amounting to RMB889,000 (six months ended 30 June 2016: RMB2,297,000) was recognised in the condensed consolidated statement of profit or loss for share awards granted to employees with a corresponding change in equity.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade payables (Note (i))	61,817	82,662
Advance from customers	285,986	235,401
Payables for construction and purchase of equipment	51,265	68,703
Dividend payables	880,811	—
Payables for acquisition of a subsidiary	300,000	—
Amount due to a joint venture (Note (ii))	56,305	69,302
Amount due to other related party (Note (ii))	83	83
Deposit payables	206,078	149,486
Accrued reimbursement to distributors	173,576	47,369
Other taxes payable	128,870	58,230
Salaries payable	23,858	57,074
Other payables	39,513	58,996
	2,208,162	827,306

Notes:

(i) The trade payables are non-interest-bearing and have an average term of 40 days.

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

As at 30 June 2017, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Payables		
Within 6 months	49,540	79,411
6 to 12 months	11,480	1,268
More than 1 year	797	1,983
	61,817	82,662

The fair value of trade and other payables approximate their carrying amounts.

11. OTHER LIABILITIES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Deferred revenue for sale of distribution rights (i)	64,162	82,592
Deferred government grants (ii)	64,387	65,439
	128,549	148,031
Less: Current portion		
Deferred revenue for sale of distribution rights (i)	30,890	39,501
Deferred government grants (ii)	4,605	4,606
	35,495	44,107
Non-current portion	93,054	103,924

(i) It represents the cash advances received for sales of distribution rights of certain pharmaceutical products to distributors for 5 years. The revenue is recognised in the interim condensed consolidated statement of profit or loss based on straight line basis.

(ii) It represents the deferred revenue of government grants received for the construction of property, plant and equipment. It will be credited to the interim condensed consolidated statement of profit or loss on straight line basis over the expected lives of the related assets.

12. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2017	2016
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sales of pharmaceutical products (Note (i))	1,438,304	1,379,678
Revenue from general hospital services	2,006	7,994
Revenue	1,440,310	1,387,672
Sale of distribution right	20,317	22,017
Rental income	1,627	1,716
Interest income	44,526	43,213
Other income	66,470	66,946
Government grants (Note (ii))	129,935	119,361
Exchange gain	—	6,550
Others	4,608	40,176
Other gains - net	134,543	166,087

Notes:

(i) 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.

(ii) The total government grants represent the subsidies received from the local government and no specific conditions were attached to them.

13. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2017 and 2016 is analysed as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current tax:		
Current tax on profits for the Period	239,418	178,935
Total current tax	239,418	178,935
Deferred tax:		
Origination and reversal of temporary differences	(82,702)	(6,419)
Total deferred tax	(82,702)	(6,419)
Income tax expense	156,716	172,516

Income tax expense

(i) ***Bermuda profits tax***

The Group is not subject to any taxation in this jurisdiction for the six months ended 30 June 2017 and 2016.

(ii) ***Hong Kong profits tax***

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2017 and 2016.

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

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

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

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2017 is provided at the rate of 15%.

14. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to oridnary equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2017 and 2016.

	Six months ended 30 June	
	2017	**2016**
	RMB'000	
	Unaudited	*Unaudited*
Profit attributable to ordinary equity holders of the Company (RMB'000)	842,456	735,968
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	9,494,407	10,361,852
Basic earnings per share (RMB cents per share)	8.87	7.10

(b) Diluted

There is no dilution to earnings per share for the Period because there was no potential dilutive ordinary shares for the six months ended 30 June 2017. The diluted earnings per share amount equals to the basic earnings per share amount.

15. DIVIDEND

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Proposed interim dividend of RMB1.8 cents (2016: RMB1.4 cents) per ordinary share	170,479	140,228

An interim dividend of RMB1.4 cents per share of the Company for the six months ended 30 June 2016 was proposed by the Board on 23 August 2016. It was paid on 15 September 2016 to shareholders of the Company who were on the register of members of the Company on 9 September 2016.

A final cash dividend of RMB3.8 cents per share and a cash special dividend of RMB5.5 cents per share for the year ended 31 December 2016, amounting to RMB359,901,000 and RMB520,910,000 respectively, were approved by the shareholders at the annual general meeting of the Company held on 16 June 2017 and were paid on 5 July 2017 to shareholders whose names appeared on the register of members of the Company on 28 June 2017.

An interim dividend of RMB1.8 cents per share of the Company (for the six months ended 30 June 2016: RMB1.4 cents per share) was proposed by the Board on 21 August 2017. It is payable on or around 13 September 2017 to shareholders of the Company who are on the register of members of the Company on 7 September 2017.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

		As at	
		30 June 2017	**31 December 2016**
		RMB'000	*RMB'000*
		Unaudited	*Audited*
Non-current assets			
Unquoted equity share, at cost	i	20,000	20,000
Current assets			
Short-term investments	ii	2,214,996	1,709,964
		2,234,996	1,729,964

(i) The amount represents equity investment in the unquoted equity share of Jiangsu Antai Biotechnology Co., Ltd. ("**Jiangsu Antai**"). It is accounted for using cost method, because the Group has no representative on the board of directors of Jiangsu Antai and no significant impact on it.

(ii) The amount represents short-term investments placed in certain PRC state-owned banking institutions with maturity within 6 months and non-fixed return rate. These investments are all denominated in RMB.

The fair values of these investments are based on average estimated return rate of 4.3% (2016: 3.9%). 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 referring to the internal credit ratings of banking institutions. None of these financial assets is either past due or impaired.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

During the first half of 2017, the pharmaceutical industry was pressured by further deepening of reforms of the pharmaceutical, medical and healthcare system, such as accelerated implementation of the "Two-Invoice System", reduction of drug expenditure, deeper discount on tendering price and second-round negotiation for drug prices. The Group actively adopted the below approaches to mitigate the negative impacts, and successfully achieved stable operational performance.

1. Sped up and deepened expansion and penetration in lower-end markets to fully tap unexplored market potential

In accordance with the Chinese government's promotion of a hierarchical medical treatment system to direct resources to grassroots health institutions, the Group dedicated more efforts in lower-end markets while consolidating the Group's position in high-end markets. Its development was focused in small- and medium-sized hospitals in lower tier cities and community-level medical institutions.

As a result, hospital coverage of major products (e.g. Kelinao and Oudimei) and the products at growth stage (e.g. Yuanzhijiu, Danshen Chuanxiongqin and Yeduojia) increased significantly during the Period.

2. Strengthened product brand building through intensified academic promotions; Conducted or deepened research projects on core products to generate clinical evidences on their efficacy, safety and indications to lengthen their life spans

The Group has substantially increased its efforts in academic promotions on a national scale. Influential medical experts and academics of relevant therapeutic areas were invited to speak at national conferences organized by the Group regarding mechanisms and clinical advantages of its products, to display and reinforce industry recognitions and support.

Moreover, the Group conducted multiple research projects on clinical efficacy, safety and indications of its core products (such as Kelinao, Oudimei, Roxatidine, Yuanzhijiu etc.). Results of several of these studies have already been published.

In addition, the Group has been actively promoting evidence generation for evidence-based medicine, with the aim to include its products in official clinical guidelines, expert consensus, and interpretation of clinical pathways.

3. **Creating higher-performing salesforce by enhancing academic promotion capabilities; Upgrading marketing and sales system through market segmentation**

The Group focused on enhancing professionalism of its salesforce by providing systematic trainings of academic promotions for its in-house marketing and sales team as well as to its distributors, to facilitate effective marketing and sales on all levels. In addition, the Group has been actively recruiting industry experts who have extensive experiences in multinational pharmaceutical companies to strengthen its talent pool. The Group also improved its marketing and sales efficiency through market segmentation to fully exploit market potential.

4. **Bolstering research and development ("R&D") capabilities through enhancing the innovative drug R&D system**

As an effort to step up its R&D capabilities, the Group established its United States ("**U.S.**") Innovative Drug Research and Development Centre ("**U.S. R&D Centre**") in the San Francisco Bay Area in the U.S., primarily focused on discovery of both small molecule and large molecule drug candidates with higher level of innovation, especially first-in-class immuno-oncology drugs.

With the aforementioned effective strategies, along with the Group's solid foundation in China's cardio-cerebral vascular prescription drug market and hospital market, Sihuan Pharmaceutical's operation performance has continued to stabilize and maintained its market leading position in the first half of 2017. The Group achieved revenue of approximately RMB1,440.3 million in the first half of 2017, representing year-on-year increase of 3.8%. Profit attributable to owners of the Company was RMB842.5 million, representing year-on-year increase of 14.5%. Net profit margin rose to 58.5% from 53.0% year-on-year. According to the data of IMS Health Incorporated, the Group remained the largest cardio-cerebral vascular drug franchise in China's prescription market with its market share reached 11.3% in terms of hospital purchases. Moreover, the Group was the fourth largest pharmaceutical company in China's entire hospital market with its market share of 1.9%.

(i) Sales of Key Products

(a) ***Cardio-Cerebral Vascular ("CCV") products***

During the first half of 2017, revenue from CCV drugs increased 3.5% year-on-year to RMB1,357.4 million, accounted for 94.2% of the Group's total revenue. The sound performance was mainly attributable to the Group's flexible adjustment of its sales strategy, gearing its efforts towards the development of lower-end medical markets, while consolidating high-end markets.

- Oudimei continued to be the biggest revenue contributor of the Group, accounting for 27.3% of its total revenue. Oudimei's revenue grew substantially by 21.2% year-on-year to RMB392.5 million during the Period;

- Yuanzhijiu's revenue grew 1.7% year-on-year to RMB223.6 million, accounting for 15.5% of the Group's total revenue;

- Combined revenue of Kelinao and Anjieli stood at RMB213.7 million, accounting for 14.8% of the Group's total revenue, decreased by 2.1% year-on-year. This further narrowed decline is mainly contributed by good growth of Kelinao during the Period; and

- Yeduojia recorded revenue of RMB69.5 million, a year-on-year increase of 15.1%, accounting for 4.8% of the Group's total revenue.

Sales of key CCV products:

Product Name	For the six months ended 30 June 2016 (RMB'000)	2017 (RMB'000)	Change in sales year-on-year
Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin injection)	323,834	392,507	21.2%
Yuanzhijiu/Xingwei (Troxerutin and cerebroproptein hydrolysate injection)	219,965	223,634	1.7%
Kelinao/Anjieli (Cinepazide maleate injection)	218,218	213,703	-2.1%
Yimaining/Yikangning (Alprostadil lipid emulsion injection)	130,051	112,858	-13.2%
Danshen Chuanxiongqin (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	101,328	87,478	-13.7%
GM1 (Monosialotetrade osylganglioside sodium injection)	79,907	79,549	-0.4%
Yeduojia (Compound trivitamin B for injection (II))	60,318	69,452	15.1%
Cerebroprotein hydrolysate	55,682	45,135	-18.9%
Chuanqing (Ligustrazine hydrochloride for injection)	32,077	25,346	-21.0%
Floium Ginkgo Extract and Tertram Ethypyrazine Sodium Chloride Injection	—	19,844	—
Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection	909	1,752	92.7%

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

During the first half of 2017, revenue from non-CCV drugs increased by 9.7% year-on-year to RMB82.9 million, accounting for 5.8% of the Group's total revenue, mainly attributable to the satisfactory performance of the Group's products in the growth stage.

- Roxatidine's revenue grew 133.2% year-on-year to RMB17.3 million, accounting for 1.2% of the Group's total revenue;
- Huineng's revenue grew 182.7% year-on-year to RMB9.8 million, accounting for 0.7% of the Group's total revenue; and
- Revenue of Ren'Ao grew 4.9% year-on-year to RMB12.3 million, accounting for 0.9% of the Group's total revenue.

The Group's products in the growth stage is expected to grow along with more provincial tenders and increasing hospital coverage, which would bring sales of these products to scale, thus making more significant contribution to the Group's overall performance.

Sales of key Non-CCV products:

Product Name	For the six months ended 30 June 2016 (RMB'000)	2017 (RMB'000)	Change in sales year-on-year
Roxatidine	7,414	17,286	133.2%
Bi'Ao (Ambroxol hydrochloride)	24,125	16,555	-31.4%
Ren'Ao (Oxcarbazepine)	11,718	12,289	4.9%
Clindamycin	9,006	10,237	13.7%
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	3,464	9,794	182.7%
Zhuo'Ao (Ambroxol hydrochloride)	7,413	7,110	-4.1%
Nilestriol	230	539	134.7%

(ii) R&D

Innovative Drugs

The Group focuses in therapeutic areas with substantial clinical demand, such as CCV, oncology and liver diseases, especially drugs with new targeting and immune-oncology drugs.

The Chinese government has been promoting policies in support of innovative drug R&D in the country. **National Science/Tech Projects-New Drug R&D** and the **Green Channel Fast Track** established by the China Food and Drug Administration ("**CFDA**") for drugs which reach certain standard to minimize evaluation time and accelerated marketization of those drugs. In March 2017, CFDA announced a new draft on proposed adjustments to China's drug registration requirements (the "**draft**") that will remove some barriers to the applications for clinical trials and drug registrations of imported drugs. In order to encourage marketization of imported innovative drugs in China, the draft proposed to allow imported innovative drugs to conduct clinical trials in China in earlier stages and simplify evaluation procedures for them.

The Group's innovative drug R&D has achieved significant progress during the Period.

- Birociclib, an internally developed innovative patented drug, was granted CFDA approval of phase I-III clinical trials. The drug is intended to treat breast cancer and malignant brain tumor. To date, no drug in the same class has been launched in China.

- The Group established its U.S. R&D Centre in the San Francisco Bay Area in the U.S., strategically as a part of its innovative R&D system. The U.S. R&D Centre primarily focuses in:

  - Discovering drug candidates with higher level of innovation, competitive advantages, and global business value, especially first-in-class immuno-oncology drugs, including small molecule drugs and large molecule biological drugs such as antibodies and fusion protein drugs.

  - Working closely with the Group's existing R&D teams and building a resource sharing platform to enhance the Group's innovative drug R&D in terms of efficiency and quality.

  - Facilitating the R&D strategy adjustment according to registration policies and marketing environment. For example, accelerating internationalization of its innovative drugs through simultaneous applications to U.S. Food and Drug Administration and the CFDA.

- During the first half of 2017, the Group received 9 national, provincial and municipal R&D awards for its innovative drug R&D.

Key innovative drug R&D projects

	Project	**Category**	**Therapeutic Area**	**Latest Development**
1	Janagliflozin (加格列淨)	Category 1.1 innovative drug	Diabetes	In the process of Phase I clinical trials.
2	Birociclib (吡羅西尼)	Category 1 innovative drug	Oncology	Obtained approval for Phase I-III clinical trials.
3	Benapenem (百納培南)	Category 1.1 innovative drug	Anti-infective	Phase I clincial trials completed; in the process of obtaining approval for Phase II/III clinical trials; on-site assessment completed.
4	Anaprazole Sodium (安納拉唑鈉)	Category 1.1 innovative drug	Gastrointestinal disease	Phase I clincial trials completed; in the process of obtaining approval for Phase II/III clinical trials.
5	Tylerdipine Hydrochloride (鹽酸泰樂地平)	Category 1.1 innovative drug	CCV	Phase I clincial trials completed; in the process of obtaining approval for Phase II/III clinical trials.

	Project	Category	Therapeutic Area	Latest Development
6	Imigliptin Dihydrochloride (鹽酸依格列汀)	Category 1.1 innovative drug	Diabetes	Phase I clincial trials completed; obtained approval for Phase II/III clinical trials; clinical trials ongoing.
7	Pirotinib (哌羅替尼)	Category 1.1 innovative drug	Oncology	Phase I clinical trials in the U.S. and China has progressed smoothly; Phase I clinical trials close to completion.
8	Fadanafil (複達那非)	Category 1.1 innovative drug	Benign prostatic hyperplasia-lower urinary tract symptoms; Erectile dysfunction	Obtained approval for Phase I-III clinical trials; in the process of clinical samples production.

Generic Drugs

The Group focuses in major therapeutic areas, such as CCV, central nervous system, and oncology, especially drugs with substantial clinical demand such as oncology and diabetics.

The Group's generic drug R&D team has conducted R&D of children's medicine and special formulations, which are encouraged by national policies. The CFDA has set to accelerate marketization of drugs with substantial clinical demand and significant clinical efficacies through including them into priority approval procedures.

The Group's generic drug R&D has achieved encouraging progress during the Period:

- In the first half of 2017, the Group was granted 11 clinical trial approvals for its generic drug products, among which 10 were Category 3 generic drugs. To date, the Group has submitted applications for production approvals for 32 generic drugs.
- During the first half of 2017, the Group received 8 provincial and municipal R&D awards for its generic drug R&D.

As of 30 June 2017, the innovative and generic drug R&D platforms have submitted applications for over 700 domestic patents, 49 PCT international patents, 1 Paris Convention patent (consisting of 6 countries) and 4 U.S. patents submitted individually. To date, the Group has been granted 230 domestic patents and 50 overseas patents.

(II) FUTURE PROSPECTS

(i) Industry Outlook

The Chinese government has been rolling out various policies to reform its healthcare system. Challenges of tendering price reduction, medical insurance expenditure control, and reduction of drug expenditure have brought pressure to the industry. The accelerated imposition of measures including the zero mark-up policy, separation of prescribing and dispensing, and two-invoice system continued to negatively impact the industry.

On the other hand, policies such as quality and efficacy consistency evaluation, evaluation and approval system reform and encouragement of drug innovation is expected to support the structure and standard of the country's R&D system. Fueled by China's ageing population, rapid urbanization and universal medical insurance coverage, rigid demand in the domestic pharmaceutical market will continue to grow.

The Group sees challenges in the industry's short-term development. Nonetheless, the Group believes that the higher visibility and gradual implementation of subsequent policies of the nation's medical reform will bring a more structured and healthy stage of the industry.

(ii) Future Strategies

In view of opportunities and challenges arising in the pharmaceutical market, the Group is set to implement following strategies to drive new growth:

1. The Group will continue development of lower-end markets to fully tap the potential of existing products. The Group will make specific strategies and targets for products in different stages of development, implement market segmentation and refine its overall management, in order to exploit unexplored market potential.

2. The Group will continue to strengthen academic promotion and brand recognition. Meanwhile, the Group will extend life spans of its key products by conducting relevant clinical studies.

3. The Group will continue to strengthen the construction of marketing and sales system by refining its structure and intensifying staff training to further enhance its marketing and sales capabilities.

4. The Group will make full use of the newly built U.S. R&D Centre to accelerate innovative drug development and enhance the Group's overall R&D capabilities. The establishment of the U.S. R&D Centre leads the Group to the field of biological drug R&D, including antibodies and fusion

protein drugs, and connects the Group to global leading R&D resources which will boost the Group's R&D development and is expected to bring high-level international cooperation opportunities, thus pave the way to the Group's international business expansion.

5. The Group will analyze and prioritize innovative drug pipeline in terms of market prospect, competitive landscape etc. The Group will concentrate efforts and resources on first-tier key projects, and adopt specific strategies to accelerate their clinical trial progression and marketization.

6. The Group will actively reinforce cooperation with international pharmaceutical companies to forge a stronger mix of products, and conduct external expansion while maintaining its stable organic growth.

   - Take the collaboration with Austria-based pharmaceutical company Croma-Pharma GmbH as an example, through formation of a joint venture with Austria-based pharmaceutical company Croma-Pharma GmbH, the Group has extended its business into aesthetic medicine which has immense growth potential in China. The aesthetic medicine market in China has been growing over 20% annually over the past years, It is predicted that demand for fast, safe, and high-quality micro-cosmetic surgery products will continue to grow. Croma-Pharma GmbH received CFDA-approval for its Princess® VOLUME dermal filler, which is the first product marketed by the joint venture. Sales of Princess® VOLUME has started recently, as traditionally September is the strongest month in sales for similar products in China. The Group has commenced clinical trials for other products under the joint venture. Diversification of aesthetic medicine products is expected in the near future.

   - The Group will keep looking for suitable opportunities to diversify its product portfolio and revenue streams.

7. The Group will seek M&A opportunities amid industry consolidation

   - The Group acquired 100% equity interest in Ambest Pharmaceutical (China) Co. Ltd, (弘和製藥(中國)有限公司) ("**Ambest Pharmaceutical (China)**") and currently holds drug production approvals of Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (甘草酸單銨半胱氨酸氯化納注射液) and Floium Ginkgo Extract and Tertram Ethypyrazine Sodium Chloride Injection (杏芎氯化鈉注射液). Both have started sales in most provinces and municipalities throughout the country and possess great market potential.

   - The Group will continue to seize investment opportunities in the industry, especially those that align with policy orientation to take advantages of industry beneficial policies.

FINANCIAL REVIEW

Turnover

For the Period, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. The total revenue of the Group increased by 3.8% or approximately RMB52.6 million from RMB1,387.7 million for the six months ended 30 June 2016 to RMB1,440.3 million for the Period, in which sales of CCV drugs amounted to approximately RMB1,357.4 million, representing an increase of approximately RMB45.3 million when compared with the six months ended 30 June 2016, accounting for approximately 94.2% of the Group's total revenue. The stable performance was mainly attributable to flexible adjustment of its marketing and sales strategy, which is to actively expand and penetrate to lower-end hospital markets while consolidating its foundation in high-end markets.

Revenue derived from non-CCV drugs increased by approximately 9.7% from RMB75.6 million for the six months ended 30 June 2016 to RMB82.9 million for the Period, accounting for approximately 5.8% of the Group's total revenue. The increase mainly benefits from the satisfactory performance of the Group's products in the growth stage.

Cost of sales

The Group's cost of sales for the Period amounted to approximately RMB421.9 million, accounting for approximately 29.3% of the total revenue.

Gross profit

Gross profit was RMB1,018.4 million for the Period, representing an increase of RMB91.0 million when compared with RMB927.4 million for the six months ended 30 June 2016. Overall gross profit margin increased from 66.8% for the six months ended 30 June 2016 to 70.7% for the Period, which was mainly due to products achieving greater econimies of scale, and streamlined production processes and effective cost control measures resulted from systematic management in the Group's production units.

Other net gains

Other net gains decreased by RMB31.6 million from RMB166.1 million for the six months ended 30 June 2016 to RMB134.5 million for the Period.

Distribution costs

Distribution costs for the Period increased by RMB15.2 million to RMB71.0 million over the same period last year due to significant increase in national scale academic promotion activities, which were conducted in order to strengthen the product brand building.

Administrative expenses

Administrative expenses increased by 24.2% from RMB216.7 million for the six months ended 30 June 2016 to RMB269.0 million for the Period, in which R&D cost increased 105.0% from RMB44.8 million for the six months ended 30 June 2016 to RMB91.9 million for the Period. This was mainly due to larger input in R&D as compared to the correspending period of last year.

Other Expenses

Other expenses increased from RMB10.0 million for the six months ended 30 June 2016 to RMB36.9 million for the Period. The increase was mainly due to an increase in foreign exchange loss for the Period.

Profit before income tax

Due to the aforesaid, the Group's profit before income tax increased by 12.0% from RMB890.5 million for the six months ended 30 June 2016 to RMB997.2 million for the Period.

Income tax expenses

The Group's income tax expenses decreased by 9.2% from RMB172.5 million for the six months ended 30 June 2016 to RMB156.7 million for the Period.

Profit for the Period

Due to the aforesaid, the Group's net profit increased by 17.1% from RMB718.0 million for the six months ended 30 June 2016 to RMB840.5 million for the Period.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by 14.5% from RMB736.0 million for the six months ended 30 June 2016 to RMB842.5 million for the Period.

Profit attributable to non-controlling interests

Losses in non-controlling interests decreased from RMB18.0 million for the six months ended 30 June 2016 to RMB2.0 million for the Period.

Liquidity and financial resources

As at 30 June 2017, the Group's cash and cash equivalents amounted to RMB1,609.3 million (as at 31 December 2016: RMB2,407.1 million) and available-for-sale financial assets amounted to RMB2,215.0 million (as at 31 December 2016: RMB1,710.0 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 China state-owned banking institutions to invest extra cash. According to such agreements, during the Period, the total amount of investment of members of the Group amounted to RMB2,197.7 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. 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 RMB2,197.7 million plus interest of approximately RMB17.3 million in aggregate amounted to approximately RMB2,215.0 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 30 June 2017. As at the date of this announcement, total amount of sold/repaid investment principal amounted to RMB821.0 million.

Save as disclosed below, 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 30 June 2017. The Directors are of the opinion that the Group does not have any significant capital risk.

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	Unaudited	Audited
Cash and cash equivalent	1,609,260	2,407,073
Less: Borrowings	(3,500)	(8,280)
	1,605,760	2,398,793

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 other receivables, bills receivable, trade receivables and prepayments to suppliers. The Group's trade and other receivables were RMB970.6 million as at 30 June 2017, representing an increase of RMB93.3 million when compared with trade and other receivables of RMB877.3 million as at 31 December 2016, mainly due to an increase in other incoming and outgoing receivables for the Period.

Inventory

Inventory as at 30 June 2017 amounted to RMB228.5 million (as at 31 December 2016: RMB200.7 million). Inventory turnover days were 92 days for the Period (for the six months ended 30 June 2016: 98 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 2017, the net book value of property, plant and equipment amounted to RMB2,202.8 million, representing an increase of RMB98.5 million, or approximately 4.7%, when compared with the net book value of property, plant and equipment as at 31 December 2016. 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 30 June 2017, the net carrying amount of goodwill was RMB2,719.9 million (as at 31 December 2016: RMB2,247.7 million). The increase in goodwill is mainly due to acquisition of Ambest Pharmaceutical (China).

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 represented the acquisition of certain pharmaceutical R&D projects from external research institutions and self-developed R&D projects. As at 30 June 2017, net intangible assets amounted to RMB1,256.8 million (as at 31 December 2016: RMB579.0 million). The increase in intangible assets is mainly due to acquisition of Ambest Pharmaceutical (China).

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 30 June 2017, trade and other payables amounted to RMB2,208.2 million, representing an increase of RMB1,380.9 million when compared with the trade and other payables as at 31 December 2016, mainly due to the payments of 2016 final cash dividend, special cash dividend and acquisition of shares in Ambest Pharmaceutical (China) had not been paid at the end of the Period.

Contingent liabilities and guarantees

As at 30 June 2017, the Group had no material contingent liabilities or guarantees (31 December 2016: nil).

Off-balance sheet commitments and arrangements

As at 30 June 2017, 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 cooperative factories. 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 2017, the Group had a total capital commitment of RMB273.1 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 2017, 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 and intangible assets. For the Period, the Group's capital expenditure amounted to RMB209.8 million, of which RMB195.3 million was spent on property, plant and equipment. The expense for purchasing and self-developed intangible assets was RMB14.5 million.

In which, for the Period, the Group's investment in capital expenditure for R&D was RMB36.9 million, of which RMB25.5 million was spent on property, plant and equipment. The remaining RMB11.4 million was for purchasing and self-developed intangible assets.

Material acquisition and disposal

On 22 March 2017, Sun Moral International (HK) Ltd., a wholly-owned subsidiary of the Company, entered into an equity acquisition agreement with Ambest Pharmaceutical Company Limited (弘和製藥集團有限公司) (the "**Transferor**") to acquire the 100% equity interest held by the Transferor in Ambest Pharmaceutical (China) for a consideration of RMB1,100.0 million ("**Share Acquisition**"). Upon completion of the Share Acquisition, Ambest Pharmaceutical (China) will become a wholly-owned subsidiary of the Group.

Ambest Pharmaceutical (China) is engaged in the manufacturing of large volume injections, and research, technology transfer and technology services of pharmaceutical products. The drug production approvals it currently holds include Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (甘草酸單銨半胱氨酸氯化納注射液) and Floium Ginkgo Extract and Tertram Ethypyrazine Sodium Chloride Injection (杏芎氯化鈉注射液). Other than commitment to sales, research and development, the Group has been constantly looking for opportunities to acquire companies owning exclusive products with large market potential, especially CCV products, in hope of further improving its market share and competitiveness. Ambest Pharmaceutical (China), the acquired target company, meets such requirements of the Group.

During the Period, the Group entered into an equity disposal agreement with Beijing Gaobo Hospital Management Co., Ltd., and disposed of its entire equity interest of 95% in Beijing Boren Hospital at the consideration of RMB140.0 million.

Pledge of assets

As at 30 June 2017, 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 2017, the Group had 3,292 employees. For the Period, total salaries and related costs of the Group were approximately RMB155.9 million (for the six months ended 30 June 2016: RMB134.9 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

During 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 (represending at least one-third of the Board) 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 2017 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 115,602,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HK$281.77 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**
5 January 2017	17,000,000	2.23	2.21	37.82	33.83
6 January 2017	5,000,000	2.20	2.18	10.99	9.83
9 January 2017	154,000	2.19	2.19	0.34	0.3
13 January 2017	13,002,000	2.19	2.15	28.40	25.4
16 January 2017	4,830,000	2.18	2.15	10.50	9.39
19 January 2017	8,888,000	2.24	2.21	19.85	17.76
6 February 2017	2,907,000	2.30	2.24	6.62	5.85
13 February 2017	6,458,000	2.50	2.47	16.12	14.25
16 February 2017	7,277,000	2.57	2.46	18.34	16.22
17 February 2017	13,000,000	2.53	2.43	32.19	28.46
20 February 2017	9,504,000	2.49	2.42	23.45	20.73
21 February 2017	5,506,000	2.54	2.49	13.94	12.32
22 February 2017	10,000,000	2.57	2.49	25.47	22.52
23 February 2017	3,076,000	2.59	2.55	7.90	6.99
19 April 2017	9,000,000	3.34	3.25	29.84	26.49
Total:	115,602,000			281.77	250.36

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 2017.

EVENTS AFTER THE REPORTING PERIOD

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 RMB1.8 cents per share (equivalent to HK2.1 cents per share) (for the six months ended 30 June 2016: RMB1.4 cents per share) for the Period.

The interim dividend will be payable on or around Wednesday, 13 September 2017 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 Thursday, 7 September 2017.

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

The register of members of the Company will be closed from Tuesday, 5 September 2017 to Thursday, 7 September 2017, 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 Monday, 4 September 2017.

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 ON THE STOCK EXCHANGE'S WEBSITE

This announcement of interim results for the six months ended 30 June 2017 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, 21 August 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.