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 2018

	Year ended 31 December		
	2018	**2017**	**Change**
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue	2,917,405	2,745,809	6.2%
Gross profit	2,379,088	1,986,853	19.7%
Operating profit	2,025,943	1,688,256	20.0%
Profit attributable to owners of the Company	1,619,956	1,448,935	11.8%
Key Financial Ratios			
Gross profit margin	81.5%	72.4%	
Net profit margin	57.6%	53.9%	
Earnings per share - Basic (RMB cents)	17.1	15.3	
Receivable Turnover (days)	58	69	
Inventory Turnover (days)	177	102	
Proposed final cash dividend per share (RMB cents)	1.3	1.3	

2018 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 6.2% from RMB2,745.8 million to RMB2,917.4 million in 2018.
- Profit attributable to owners of the Company increased by 11.8% to RMB1,620.0 million in 2018.
- Basic earnings per share increased by approximately 11.8% over 2017 to approximately RMB17.1 cents in 2018.
- The Board recommends the declaration and payment of a final cash dividend of RMB1.3 cents per share which is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company (2017: RMB1.3 cents per share).

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 2018 (the "**Year**") together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		2,775,371	2,453,594
Investment properties		209,206	17,814
Goodwill		2,843,903	2,843,903
Intangible assets	4	1,252,251	1,338,006
Land use rights		849,190	702,661
Investments accounted for using the equity method	16	1,168,623	1,012,091
Financial assets at fair value through profit or loss	6	181,783	—
Available-for-sale financial assets	6	—	39,076
Other non-current assets		275,615	282,880
Deferred tax assets		111,114	127,514
Total non-current assets		9,667,056	8,817,539
Current assets			
Inventories		301,117	227,970
Trade and other receivables	5	857,181	747,141
Financial assets at fair value through profit or loss	6	1,303,276	—
Available-for-sale financial assets	6	—	2,967,354
Cash and cash equivalents		3,314,845	831,859
Total current assets		5,776,419	4,774,324
Total assets		15,443,475	13,591,863

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Equity			
Equity attributable to owners of the Company			
Share capital	7	78,233	78,233
Share premium	7	4,093,317	4,093,317
Other reserves		159,631	166,210
Retained earnings		8,179,232	6,719,232
		12,510,413	11,056,992
Non-controlling interests		263,950	279,078
Total equity		12,774,363	11,336,070
Liabilities			
Non-current liabilities			
Deferred tax liabilities		256,937	264,396
Contract liabilities		9,575	—
Other non-current liabilities	8	153,981	88,084
Total non-current liabilities		420,493	352,480
Current liabilities			
Trade and other payables	9	1,686,749	1,804,787
Contract liabilities		517,519	—
Income tax payable		37,671	70,829
Other current liabilities	8	6,680	27,697
Total current liabilities		2,248,619	1,903,313
Total liabilities		2,669,112	2,255,793
Total equity and liabilities		15,443,475	13,591,863

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Revenue	10	2,917,405	2,745,809
Cost of sales	11	(538,317)	(758,956)
Gross profit		2,379,088	1,986,853
Other income	10	214,676	136,534
Other gains — net	10	610,083	313,917
Gain on derecognition of a subsidiary		—	125,771
Distribution expenses	11	(271,119)	(227,633)
Administrative expenses	11	(396,106)	(325,102)
Research and development expenses	11	(480,325)	(303,926)
Other expenses	11	(30,354)	(18,158)
Operating profit		2,025,943	1,688,256
Finance expenses		(6,060)	(46)
Share of profits and losses of investments accounted for using the equity method	16	(7,718)	40,865
Profit before income tax		2,012,165	1,729,075
Income tax expense	12	(332,804)	(250,167)
Profit for the year		1,679,361	1,478,908
Profit attributable to:			
Owners of the Company		1,619,956	1,448,935
Non-controlling interests		59,405	29,973
		1,679,361	1,478,908

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

		Year ended 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Profit for the year		1,679,361	1,478,908
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value on available-for-sale investments		—	93,138
Reclassification adjustments for gains included in the consolidated statement of profit or loss			
- gain on disposal on available-for-sale investments		—	(85,137)
Other comprehensive income for the year, net of tax		—	8,001
Total comprehensive income for the year		1,679,361	1,486,909
Attributable to:			
Owners of the Company		1,619,956	1,456,936
Non-controlling interests		59,405	29,973
Total comprehensive income for the year		1,679,361	1,486,909
Earnings per share attributable to ordinary equity holders of the company			
Basic and diluted earnings per share for profit for the year	13	*RMB* 17.1 cents	*RMB* 15.3 cents

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		2,297,603	2,359,243
Income tax paid		(504,809)	(441,653)
Net cash flows from operating activities		1,792,794	1,917,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to associates	16	(164,250)	(110,831)
Net cash inflow from disposal of subsidiaries		—	139,646
Acquisition of a subsidiary		(419,475)	(576,114)
Payment for purchase of property, plant and equipment		(262,279)	(406,304)
Purchase of intangible assets		(19,742)	(22,165)
Purchase of land use rights		(107,433)	(58,564)
Purchase of financial assets at fair value through profit or loss /available-for-sale financial assets		(21,454,174)	(12,434,239)
Proceeds from disposal of financial assets at fair value through profit or loss/available-for-sale financial assets		23,113,324	11,284,850
Proceeds from disposal of property, plant and equipment		2,158	229
Interest received		134,737	86,238
Net cash flows from/(used in) investing activities		822,866	(2,097,254)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment from other loans		(137,132)	(3,500)
Proceeds from other loans		224,192	(251,867)
Non-controlling interests arising in subsidiaries		21,530	3,907
Dividends paid		(240,007)	(1,144,090)
Interest paid		(1,257)	—
Net cash flows used in financing activities		(132,674)	(1,395,550)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,482,986	(1,575,214)
Cash and cash equivalents at beginning of year		831,859	2,407,073
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,314,845	831,859

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 the research and development ("**R&D**"), and the manufacture and sale of pharmaceutical products in the People's Republic of China (the "**PRC**").

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 in Hong Kong is Room 4309, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 22/F, Building 4, 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 have been approved for issue by the board of directors on 18 March 2019.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all IFRSs, International Accounting Standards ("**IASs**") and 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.

They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs 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. **BASIS OF PREPARATION (Continued)**

Changes in accounting policies and disclosures

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

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

3. **SEGMENT INFORMATION**

The chief operating decision-maker has been identified as the executive directors of the board of the Company. The executive directors of the board of the Company review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors of the board of the Company consider the business from product perspective. The Group is engaged in only one business segment, being the research and development, and manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2018, all sales were from distributors and there were no distributors of the Group from which the revenue amounted to 10% or more of the Group's revenue (2017: Nil).

4. INTANGIBLE ASSETS

	Customer relationship	Deferred development costs	Product development in progress	Trademark and software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost at 1 January 2017, net of accumulated amortisation and impairment	39,895	283,726	227,137	28,240	578,998
Additions	—	13,797	—	2,808	16,605
Acquisition of subsidiaries	—	856,228	—	1,130	857,358
Amortisation charge	(39,895)	(69,477)	—	(5,583)	(114,955)
Net carrying amount at 31 December 2017	—	1,084,274	227,137	26,595	1,338,006
At 31 December 2017:					
Cost	433,932	1,421,714	350,767	52,070	2,258,483
Accumulated amortisation	(433,932)	(335,408)	—	(25,475)	(794,815)
Impairment	—	(2,032)	(123,630)	—	(125,662)
Net carrying amount	—	1,084,274	227,137	26,595	1,338,006
Cost at 1 January 2018, net of accumulated amortisation and impairment	—	1,084,274	227,137	26,595	1,338,006
Additions	—	13,165	—	926	14,091
Disposals	—	—	—	(2,936)	(2,936)
Amortisation charge	—	(95,148)	—	(1,762)	(96,910)
Net carrying amount at 31 December 2018	—	1,002,291	227,137	22,823	1,252,251
At 31 December 2018:					
Cost	433,932	1,434,879	350,767	49,124	2,268,702
Accumulated amortisation	(433,932)	(430,556)	—	(26,301)	(890,789)
Impairment	—	(2,032)	(123,630)	—	(125,662)
Net carrying amount	—	1,002,291	227,137	22,823	1,252,251

5. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Trade receivables — third parties	203,467	167,854
Notes receivables	273,271	290,589
Prepayments to suppliers	117,253	112,594
Amount due from associates	74,019	107,959
Amount due from other related parties	9,674	9,675
Other receivables	191,173	58,470
Impairment allowance for other receivables	(11,676)	—
	857,181	747,141

The Group's credit terms granted to customers range from one month to one year. The Group seeks to maintain strict control over its outstanding receivables. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Within 3 months	190,879	161,537
3 to 6 months	7,978	2,613
6 months to 1 year	4,544	3,700
More than 1 year	66	4
	203,467	167,854

6. FINANCIAL ASSETS AT FAIR VAULE THROUGH PROFIT OR LOSS / AVAILABLE-FOR-SALE FINANCIAL ASSETS

Set out below, is an overview of financial assets, other than cash and cash equivalents, trade and other receivables, held by the Group as at 31 December 2018 and 31 December 2017:

		As at 31 December	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Non-current			
Financial assets at fair value through profit or loss:			
Unlisted investments, at fair value		181,783	—
Available-for-sale financial assets:			
Unlisted investments, at cost		—	39,076
Total non-current	(i)	181,783	39,076
Current			
Financial assets at fair value through profit or loss:			
Short-term investments		1,303,276	—
Available-for-sale financial assets:			
Short-term investments		—	2,967,354
Total Current	(ii)	1,303,276	2,967,354
Total other financial assets		1,485,059	3,006,430

(i) The amount represents equity investments in the unquoted equity shares of Jiangsu Antai Biotechnology Co., Ltd., KBP Biosciences Holdings Limited, Lindeman Asia No.12 Investment Fund and Zhejiang Zhida Pharmaceutical Co. LTD. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify at fair value through other comprehensive income .

During the year ended 31 December 2018, the gross gain at fair value in respect of the above equity investments amounted to approximately RMB131,367,000.

(ii) The amount represents wealth management products issued by certain PRC reputable banking institutions with maturity within 6 months and a non-fixed return rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. These investments are all denominated in RMB. The fair values of these investments are based on an average estimated return rate of 4.73% (2017: 4.5%). The maximum exposure to credit risk at the reporting date was the carrying values of these investments. The credit quality of these investments that are neither past due nor impaired can be assessed by referring to the internal credit ratings of banking institutions.

7. SHARE CAPITAL, TREASURY SHARES 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 2017 (HKD0.01 per share)	100,000,000	9,586,684	79,443	(255)	4,344,229	4,423,417
Movement from 1 January 2017 to 31 December 2017:						
Repurchase and cancellation of shares	—	(115,602)	(1,210)	255	(250,912)	(251,867)
As at 31 December 2017 (HKD0.01 per share)	100,000,000	9,471,082	78,233	—	4,093,317	4,171,550
As at 1 January 2018 and 31 December 2018 (HKD0.01 per share)	100,000,000	9,471,082	78,233	—	4,093,317	4,171,550

Notes:

The Company purchased 115,602,000 of its shares on The Stock Exchange of Hong Kong Limited at a total consideration of HKD282,283,000 (equivalent to RMB251,867,000), which was paid wholly out of share premium in accordance with section 257 of the Hong Kong Companies Ordinance. As at 31 December 2017, all purchased shares were cancelled.

8. OTHER LIABILITIES

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Deferred revenue for sales of distribution rights (i)	—	44,222
Deferred government grants (ii)	65,661	71,559
Other borrowings (iii)	95,000	—
	160,661	115,781
Less: current portion		
Deferred revenue for sales of distribution rights (i)	—	21,300
Deferred government grants (ii)	6,680	6,397
	6,680	27,697
Non-current portion	153,981	88,084

(i) It represents the cash advances received for sales of distribution rights of certain pharmaceutical products to distributors for a period of five years. The revenue is recognised in the consolidated statement of profit or loss and other comprehensive income based on the straight-line basis. Upon adoption of IFRS 15, reclassifications have been made to contract liabilities for the outstanding balance of such cash advances.

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

(iii) It represents the borrowings from non-controlling shareholders of a subsidiary of the Group, which is interest-bearing, unsecured, repayable in seven years.

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables (i)	37,202	34,320
Advances from customers (ii)	—	360,594
Costs of construction and purchase of equipment payables	53,977	51,857
Payable for acquisition of a subsidiary	300,000	300,000
Amount due to other related party	83	83
Deposit payables	221,506	241,225
Accrued reimbursement to distributors	899,683	505,833
Other taxes payable	59,417	180,749
Salaries payable	55,329	52,891
Interest payables	3,995	—
Other payables	55,557	77,235
	1,686,749	1,804,787

Notes:

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

(ii) Upon adoption of IFRS 15, reclassifications have been made from trade and other payables to contract liabilities for the outstanding balance of advances from customers.

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	31,271	24,329
6 months to 1 year	3,301	3,766
More than 1 year	2,630	6,225
	37,202	34,320

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

10. REVENUE, OTHER INCOME AND GAINS

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue		
Sales of pharmaceutical products (i)	2,917,405	2,743,803
Revenue from general hospital services	—	2,006
	2,917,405	2,745,809
Other income		
Interest income	164,558	97,475
Sales of distribution rights	21,300	35,256
Research and development income	15,786	—
Rental income	3,560	3,803
Others	9,472	—
	214,676	136,534
Other gains — net		
Government grants (ii)	469,434	304,963
Fair value gain on financial assets at fair value through profit or loss	137,779	—
Others	2,870	8,954
	610,083	313,917

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 represented the subsidies received from the local government and no specific conditions were attached to them.

11. EXPENSES BY NATURE

	Year ended 31 December 2018 *RMB'000*	2017 *RMB'000*
Research expenses	263,829	163,932
Amortisation of deferred development costs	95,148	69,477
Raw materials used	265,469	401,607
Changes in inventories of finished goods and work in progress	29,626	10,399
Employee benefit expenses		
Wages and salaries	395,864	309,967
Welfares	99,451	63,538
Share-based payments	345	1,775
Depreciation of property, plant and equipment	189,599	167,779
Amortisation of intangible assets excluding the amortisation of deferred development costs	1,762	45,478
Tax surcharges	101,740	90,238
Office expenses	42,541	43,022
Travelling expenses	26,526	28,649
Professional services expense	85,322	48,258
Transportation expenses	21,313	24,600
Utilities and property management fee	11,846	9,476
Rental expenses	9,115	8,673
Amortisation of land use rights	18,469	13,131
Advertising and promotional expenses	28,182	47,885
Auditor's remuneration	5,500	5,500
Entertainment expenses	10,044	8,131
Bank charges	968	561
Others	13,562	71,699
Total cost of sales, distribution expenses, administrative expenses, research and development expenses and other expenses	1,716,221	1,633,775

12. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 2018 and 2017 is analysed as follows:

	Year ended 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Current taxation:		
Provision for the year	248,863	326,858
Provision for withholding tax	75,000	25,001
Total current tax	323,863	351,859
Deferred tax:		
Origination and reversal of temporary differences	8,941	(101,692)
Total deferred tax	8,941	(101,692)
Income tax expense	332,804	250,167

The tax on the Group's profit before tax differs from the theoretical amount that would arise from using the statutory tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Profit before tax	2,012,165	1,729,075
Tax calculated at the PRC applicable statutory tax rate of 25% (2017: 25%)	503,041	432,269
Tax effects of:		
- Utilisation of previously unrecognised tax losses	(1,009)	(1,415)
- Effect of tax concessions and exemption	(260,043)	(201,366)
- Expenses not deductible for tax purposes	27,491	25,641
- Profits and losses attributable to joint ventures and associates	1,930	(10,216)
- Income not subject to tax	(32,842)	(31,443)
- Tax losses for which no deferred income tax asset was recognised	19,236	11,696
- Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	75,000	25,001
Income tax expense	332,804	250,167

12. INCOME TAX EXPENSE (Continued)

Bermuda profits tax

The Group was not subject to any taxation in this jurisdiction during the year (2017: Nil).

Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (2017: Nil).

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

PRC CIT is provided on the assessable 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 at the tax rate of 25%.

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2018 and 2017 was provided at the rate of 15%.

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%.

For purpose of cash dividends payment, the domestic subsidiaries of the Group distributed dividends amounting to RMB1,500,000,000 (2017: RMB500,000,000) to overseas to meet the special requirement for funding which was out of dividend plan in year 2017 and paid relevant withholding tax in year 2018.

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	
	2018	**2017**
Profit attributable to owners of the Company *(RMB'000)*	1,619,956	1,448,935
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	9,471,082	9,482,649
Basic earnings per share *(RMB cents per share)*	17.1	15.3

(b) Diluted

There was no dilution to earnings per share during 2018 and 2017 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share amounts equalled to the basic earnings per share amounts.

14. DIVIDENDS

The dividends paid in 2018 and 2017 were RMB161,008,000 and RMB1,051,290,000, respectively. A final cash dividend for the year ended 31 December 2018 of RMB123,124,066 was recommended by the Board and subject to approval at the forthcoming annual general meeting of the Company.

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

	2018	**2017**
	RMB'000	*RMB'000*
Final 2017 dividend of RMB1.3 (2016: RMB3.8) cents per ordinary share for the previous year, paid during the year	123,124	359,901
Final 2016 special cash dividend of RMB5.5 cents per ordinary share for the previous year, paid during 2017	—	520,910
Interim dividend of RMB0.4 (2017: RMB1.8) cents per ordinary share, declared and paid during the year	37,884	170,479
	161,008	1,051,290

Dividends proposed by the Company during the year:

Proposed final cash dividend of RMB1.3 (2017: RMB1.3) cents per ordinary share	123,124	123,124

15. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Property, plant and equipment	219,318	148,135
Intangible assets — product development in progress	101,806	73,875
	321,124	222,010

(b) Operating lease commitments

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between one and seven 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	
	2018	**2017**
	RMB'000	*RMB'000*
Within 1 year	4,624	1,460
Between 2 and 5 years	7,344	654
More than 5 years	1,481	—
	13,449	2,114

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Opening balance at 1 January	1,012,091	1,272,851
Addition of associates and joint ventures (i)	159,160	90,832
Capital contributions to an existing associate (ii)	5,090	19,999
Derecognition of an associate	—	(19,076)
Derecognition of a joint venture	—	(393,380)
Share of post-tax profits and losses of associates and joint ventures	(7,718)	40,865
Closing balance at 31 December	1,168,623	1,012,091

(i) In February 2018, the Group acquired 21.13% of the equity of Beijing Stemexcel Technology Co.,Ltd., at a consideration of RMB30,000,000.

In March 2018, the Group acquired 50% of the equity of Fujian Pingtan Huaxing Kangping Pharmaceutical Industry Investment Partnership (Limited Partnership) at a consideration of RMB100,000,000.

In May 2018, the Group acquired 33% of the equity of Huaxing Kangping Pharmaceutical Industry (Pingtan) Investment Management Co., Ltd. at a consideration of RMB660,000.

In August 2018, the Group acquired an additional 3% equity interest in Shenzhen Henghe Internet Technology Co., Ltd., ("**Shenzhen Henghe**") from another shareholder of Shenzhen Henghe at a consideration of RMB28,500,000. The Group has 20% of the equity of Shenzhen Henghe upon the transaction.

(ii) In January 2018, the Group recognised an additional investment in an existing associate, Renfang Medical Holdings Ltd. ("**Renfang Medical**"). The capital was injected to Renfang Medical by cash at the end of January 2018, and the legal and substance modification procedures were completed in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

In 2018, new regulations implemented by government bodies such as the State Council of the People's Republic of China ("**PRC**" or "**China**") and National Health and Family Planning Commission have created tremendous changes and influences on the pharmaceutical industry. These new regulations mainly encourage innovation and consolidation. Aiming to encourage innovations, the government has unveiled a series of regulatory reforms involving the Review and Approval System for Drugs and Medical Devices, the Marketing Authorization Holder ("**MAH**") system and inclusion of innovative drugs into the National Reimbursement Drug Lists. These measures were significant from the aspects of the research and development ("**R&D**"), market access, to expense payment and settlement of innovative drugs. The government is also consolidating the industry through requiring bioequivalent tests for generics, implementing the "two-invoice-system", tightening control over drug expenditure proportion and monitoring unnecessary use of anti-infectives and adjuvant drugs.

Facing changing landscapes, the Group is determined to solidify its operation fundamentals to drive its short- to mid-term growth. Meanwhile, Sihuan Pharmaceutical also propels its R&D projects, most of which are now producing ground-breaking results after years of dedications and, in turn, boosted the Group's capabilities for long-term development.

During the Year, the Group has deployed the following main strategies: 1) Propelling the R&D of innovative drug and generic drug to raise the Group's profile in major therapeutic areas, achieving breakthroughs for several projects 2) Targeted marketing management to fully realise potential of its products, by expanding sales network, accelerating the development in primary markets, and enhancing academic promotion and evidence-based research for existing products. 3) Optimizing product resources by improving the quality of its overall product portfolio, through proactively seeking opportunities of investment, M&A and international collaboration.

Major Breakthroughs

From the beginning of 2018 to date, the Group has accomplished major achievements in marketing, R&D and business development, including:

R&D

- The Group's first diabetes innovative patented new drug Janagliflozin (加格列淨) commenced Phase III clinical trials in China.
- Three innovative drugs commenced Phase II clinical trials in China, including the only domestically developed new generation digestive system drug Anaprazole Sodium (安納拉唑鈉), China's first independently patented innovative carbapenem antibiotic Benapenem (百納培南) and innovative targeted oncology drug Pirotinib (哌羅替尼).
- Antihypertensive drug Tylerdipine Hydrochloride (泰樂地平) has finished Phase I studies in healthy individuals and has initiated trials in patients.
- Three innovative drugs commenced Phase I clinical trials in China, including selective CDK4/6 inhibitor Birociclib (吡羅西尼), third-generation irreversible tyrosine kinase inhibitor XZP-3621, and PDE-5 inhibitor Fadanafil (複達那非).
- Metformin Hydrochloride Tablets (鹽酸二甲雙胍片) obtained consistency evaluation approval (the first generic product to obtain approval through supplementary application).
- Exclusive product and paediatric medicine Midazolam Oromucosal Solution (咪達唑侖口頰粘膜溶液) has been included in the priority review process.
- Sihuan Pharmaceutical became the first company in China that was granted drug registration approval for Compound Electrolyte Injection (II) (複方電解質注射液(II)) (500ml).
- "Non-PVC solid-liquid double chamber infusion soft bag" (including Ceftazidime (頭孢他定), cefuroxime (頭孢呋辛), cefodizime (頭孢地嗪)) has passed on-site assessment and is expected to launch in the first half of 2019.
- Production approval has been obtained for Octreotide Acetate Injection (醋酸奧曲肽注射液), Ambroxol Hydrochloride Injection (鹽酸氨溴索注射液) and Buflomedil Hydrochloride Injection (鹽酸法舒地爾注射液).
- Compound Amino Acid Injection (20AA) granted approval for drug registration

Sales & marketing

- Several key products have been included in more clinical pathways. Cerebroside-kinin injection (brand name: Oudimei/Aofutai/Weitong/Jielixin) has been included in the 2018 edition of the Interpretation of Clinical Pathway (Rehabilitative medicine). Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng) has been included in the 2018 edition of the Interpretation of Clinical Pathway and Therapeutic Drugs (Rheumatology).

- Two mature products, including Troxerutin and cerebroproptein hydrolysate injection (brand name: Yuanzhijiu/Xingwei/Xinyintong) and Salvia Miltiorrhiza and Ligustrazine Hydrochloride Injection (brand name: Wei'ao) have recorded desirable growth, with a year-on-year growth rate of 39.3% and 53.7% respectively.

- Two growth-stage products, Roxatidine Acetate Hydrochloride For Injection (Brand name: Jie'ao) and Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng) continued to exhibit strong growth, with a year-on-year growth rate of 71.4% and 131.2% for their sales revenue respectively.

Business development

- The Group has established its Global Business Development Department in both China and the United States ("**U.S.**"). The team is equipped with expertise in both domestic and overseas pharmaceutical industries, and will be dedicated in exploring and introducing leading medicinal technology in major therapeutic areas.

Key Financial Performance

For the Year, the Group recorded a revenue of approximately RMB2,917.4 million, representing a year-on-year increase of 6.2%. Profit attributable to owners of the Company was RMB1,620.0 million, representing a year-on-year increase of 11.8%. The growth was mainly attributable to the effective targeted market management and further penetration in primary markets. Another contributing factor was the rapid growth of non-CCV drugs.

For the Year, gross profit was RMB2,379.1 million, representing a year-on-year growth of 19.7%. Overall gross profit margin increased from 72.4% for 2017 to 81.5% for the Year, which was mainly attributable to the implementation of production cost control procedures of the Group and higher sales from products with better profit during the Year.

Operating cash flow was RMB1,792.8 million for the Year. The Group's debt to equity ratio, expressed as a percentage of other borrowings over equity attributable to owners of the Company, was maintained below 1%, maintaining a sound financial position.

During the Year, expenditure for R&D and relevant activities increased by 48.3% to RMB533.2 million, accounting for 18.3% of the revenue. This was mainly due to the advancement in clinical trials of multiple projects.

R&D

Innovative drug R&D advancement with remarkable clinical progress

The Group's first diabetes patented innovative drug Janagliflozin (加格列淨) commenced Phase III clinical trial in China. Janagliflozin is an orally active inhibitor of the sodium-glucose transport protein subtype 2 (SGLT-2). Gaining international popularity, SGLT-2 inhibitors are a new pharmacotherapeutic class for the treatment of Type 2 Diabetes Mellitus. This new drug has acquired patents in China, the U.S., Europe, Japan and Korea. Janagliflozin targets to become one of the country's top two domestically-produced SGLT-2 inhibitors on the market. SGLT-2 inhibitors can be taken as monotherapy or in combination with other anti-diabetic agents. The market is massive for SGLT-2 inhibitors in China and abroad. The fact that SGLT-2 inhibitors have entered Phase III clinical trials demonstrates that the Company has made significant breakthroughs in original R&D of diabetes drugs.

Three of the Group's self-developed innovative drugs have commenced Phase II clinical trials, including Anaprazole Sodium (安納拉唑鈉), Benapenem (百納培南) and Pirotinib (哌羅替尼). Anaprazole is China's only self-developed novel drug in the proton pump inhibitors family and is intended for the treatment of digestive diseases such as duodenal ulcer and duodenogastric reflux. The new drug avoids/reduces the risk of other clinical drug interactions through enzyme-free metabolism and multi-enzyme metabolism. Benapenem (百納培南) is a carbapenem antibiotic which has strong antibacterial activity against G+, G- and anaerobic bacteria that it can be widely used in patients with severe infection. Compared to similar products, Benapenem (百納培南) has a long half-life and proven better safety. Phase II clinical trials for Anaprazole Sodium (安納拉唑鈉) for duodenal ulcer and Benapenem (百納培南) on complicated urinary tract infections, respectively, are being conducted in multiple institutions in China and have been progressing smoothly. Innovative oncology drug Pirotinib (哌羅替尼) is a novel irreversible pan-epidermal growth factor receptor tyrosine kinase inhibitor ("**EGFR**"), intended for the treatment of various types of malignant tumor, including non-small cell lung cancer ("**NSCLC**"). International multi-centered Phase I clinical trials have already been completed in China and the U.S.. Phase II clinical trials have commenced in China, led by top oncologist Professor Wu Yilong.

Tylerdipine Hydrochloride (泰樂地平) is an antihypertensive drug whose mechanism of action is through dual inhibition of L-T-type calcium channels. Phase I clinical studies of Tylerdipine Hydrochloride in healthy individuals have been completed and clinical studies in patients are undergoing. Additionally, Phase I clinical trials are being conducted for three of the Group's independently developed oncology drugs. Selective CDK4/6 inhibitor Birociclib (哌羅西尼) can be taken as monotherapy and possesses a unique pharmacokinetic property of efficient blood-brain barrier penetration. Preclinical studies revealed that Birociclib (哌羅西尼) is potentially more safe compared to similar products. The drug is now in Phase I clinical trials and is expected to prove its mechanism in 2019. XZP-3621, a third-generation dual-target tyrosine kinase inhibitor, has also entered Phase I clinical trials in China at the end of 2018. It is intended for non-small cell lung cancer. Fadanafil, a PDE-5 inhibitor, is intended to treat the male reproductive system. The single-dose Phase I tolerability test for healthy individuals has been completed and multi-dose Phase I clinical trials of healthy individuals will be conducted.

As of the end of December in 2018, the innovative drug platform has submitted applications for over 600 domestic patents, 44 PCT international patents, 1 Paris Convention patent (consisting of 4 countries) and 2 U.S. patents submitted individually. To date, the Group has been granted 176 domestic patents and 69 overseas patents.

Innovative Drug Pipeline

Project at Clinical Stage	Therapeutic Area	Phase I Clinical Trial	Phase II Clinical Trial	Phase III Clinical Trial
Janagliflozin	Diabetes			* Monotherapy * Combined Regiment with Metformin
CP001 Long-acting Basal Insulin	Diabetes			
Insulin Aspart	Diabetes			
Insulin Aspart 30	Diabetes			
Insulin Aspart 50	Diabetes			
Birociclib	Oncology			
Pirotinib*	Oncology			
XZP-3621	Oncology			
Benapenem	Anti-infective			
Anaprazole Sodium	Gastrointestinal Disease			
Tylerdipine	Anti-hypertension			
Fadanafil	BPH-LUTS/ED			

Project at Preclinical Stage	Therapeutic Area	Target Validation	LI/LO	Preclinical	IND
XZP-5809	Oncology				
XZP-P009	NASH				
XZP-P135	NASH				
XZP-P118	Oncology				
XZP-P179	Oncology				
XZP-P183	NASH				
XZP-P107	Oncology				
XZP-P215	Oncology				
XZP-P223	Oncology				

* Phase I clinical trials of Pirotinib were completed in the US and in China. It also obtained approval for Phase I/II/III clinical trials from the CFDA, and Phase II clinical trials in China have been commenced

Continued investment in CCV and central nervous system (“CNS”) generic drug projects and achieved sound progress

By assessing competitive landscape and clinical demand, the Group has forged ahead the development of key projects, and scheduled a number of new products to be launched in the coming years. Besides, the Group has designated a few oral solid dosage products for bioequivalence test, which are expected to contribute to the profitability of the Group when officially launched.

During the Year, the Group’s Metformin Hydrochloride Tablet (鹽酸二甲雙胍片), a first-line diabetes drug, has passed the bioequivalent test. The Group is the first manufacturer to pass the Consistency Evaluation through supplementary application in China. Metformin Hydrochloride Tablets (鹽酸二甲雙胍片) are prescribed as primary care to patients with diabetes and acknowledged as a first-line medication for diabetes in guidance for Type 2 diabetes prevention and treatment established by domestic and international organizations, attributable to its efficacy and accessibility. According to statistics from Menet (China Medical and Pharmaceutical Economic Information Network), the total revenue of metformin tablets in city- and county-level public hospitals in China reached RMB2.59 billion in 2017, which ranked second in the oral blood glucose-lowering agents market in China.

In addition, Midazolam Oromucosal Solution (咪達唑侖口頰粘膜溶液), the Group’s self-developed pediatric medicine, has been listed in the 30th batch of “Announcement on Registration Application for Drugs to be Included in the Priority Review Process” recently released by the Center for Drug Evaluation of China Food and Drug Administration (“**CFDA**”) (國家第三十批優先審評藥品註冊申請目錄). The product is intended to treat prolonged, acute, convulsive seizures in infants, toddlers, children and adolescents (from the age of 3 months to 18 years). The Group has been the first and sole entity to submit application for production approval to CFDA and the product is currently in the process of review and evaluation. The inclusion in the priority review process is expected to expedite the review and approval timeframe for the drug to market. This product is expected to exhibit broad prospect when marketed in the future.

Some products in the Group’s generic drug pipeline are expected to become amongst the first three products of its kind to pass or to be deemed as pass the BE tests, starting from the second half of 2019. They include capraplatin tartaric acid capsule (重酒石酸卡巴拉汀膠囊), azithromycin capsule (阿奇黴素膠囊), ibuprofen injection (布洛芬注射液), and octreotide acetate injection (醋酸奥曲肽注射液).

Beijing Ruiye Drugs Manufacture Co. Ltd. (“**Beijing Ruiye**”), in which Sihuan Pharmaceutical holds a 44% stake, is dedicated to the R&D of the “non-PVC solid-liquid double chamber infusion soft bag” (including Ceftazidime (頭孢他定), cefuroxime (頭孢呋辛), cefodizime (頭孢地嗪)). The product has passed on-site assessment and is now awaiting production approval and expected to launch in the first half of 2019. Sihuan Pharmaceutical will be the product’s exclusive distributor. In developed countries such as Europe, the U.S. and Japan, the non-PVC soft infusion bag has taken more than 80% market share in the past decade, whilst it only accounts for 5% market share in China. Being the first domestically manufactured product of the kind, the “non-PVC solid-liquid double chamber infusion soft bag” developed by Beijing Ruiye will enjoy enormous market potential.

Sihuan Pharmaceutical became the first company in China that was granted drug registration approval for Compound Electrolyte Injection (II) (複方電解質注射液(II)) (500ml). The Group also obtained approval for drug registration for its Compound Amino Acid Injection (20AA). The product demonstrates great clinical value in prevention and treatment of hepatic injury and abnormal liver function. In addition, the Group obtained the production approvals for Octreotide Acetate Injection (醋酸奧曲肽注射液), Ambroxol Hydrochloride Injection (鹽酸氨溴索注射液) and Buflomedil Hydrochloride Injection (鹽酸法舒地爾注射液).

As of the end of December in 2018, the generic drug platform has submitted bio-equivalence test applications for 3 products, and 1 product has already passed bio-equivalence test. 7 products has begun the procedure of bio-equivalence tests. At present, there are 31 generic projects are undergoing the review and approval process at the Centre for Food and Drug Inspection of National Medical Products Administration ("**NMPA**"). 11 drugs were approved for reference medicinal product filing. 8 drugs completed registration for clinical trials. During the year, the platform obtained production approval for 3 products (5 in terms of formulations). The platform submitted patent applications for 22 products, among which there were 21 domestic patents and 1 PCT international patent. During the Year, the Group obtained patents for 16 products.

Sales and Marketing

The Group possesses a diversified product portfolio that gives it flexibility to adjust its sales and marketing strategies in accordance to different market situations. During the Year, the Group focused its promotional efforts in its growth stage products to quickly seize market share by utilizing existing sales channels. The Group also sought after new growth drivers while striving to maintain growth momentum of its core products. The Group rolled out targeted strategies for products in different stages of growth. Through targeted management, the Group further realized potential of its product portfolio. According to data from IMS Health Incorporate ("IMS"), the Group remained the largest CCV drug manufacturer in China's prescription drug market with a market share of 8.3%. The Group ranks 11 among pharmaceutical companies in China's hospital market with a market share of 1.42%

1. **Strengthened academic promotions and evidence-based research**

The Group conducted evidence-based research to reinforce the recognition of the clinical efficacy, safety and indications of its main products, of which the results have been published. Meanwhile, the Group promoted inclusion of its main products in official clinical guidelines, expert consensus and interpretation of clinical pathways. In the national-level Interpretation of Clinical Pathways and the Interpretation of Clinical Pathway and Therapeutic Drugs which have been published consecutively during the Year, multiple products of the Group have been recommended for various indications. Cerebroside-kinin injection (brand name: Oudimei/Aofutai/Weitong/Jielixin) has been included in the 2018 edition of the Interpretation of Clinical Pathway (Rehabilitative medicine). Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng) has been included in the 2018 edition of the Interpretation of Clinical Pathway and Therapeutic Drugs (Rheumatology).

The Group has also started the post-launch re-evaluation of its exclusive and major products. For instance, the Group has already commenced post-launch re-evaluation study for Cinepazide Maleate Injection and Cerebroside-kinin injection.

In the meantime, the Group continued to step up its national academic promotions, resulting in improved market recognition and coverage.

2. **Increasing hospital coverage and accelerate the development of primary market**

During the Year, the Group dedicated its efforts in deepening penetration of its mature products in first-tier markets where there was already extensive coverage, targeting to exploit untapped hospital resources, with the aim to stabilize sales and achieve steady growth. At the same time, in view of the government's promotion of hierarchical healthcare system, the Group concentrated its effort on directing the resource to primary healthcare institutions, while accelerating the development of small and medium-sized hospitals and community medical institutions in third- and fourth-tier cities. According to IMS, for the third quarter of 2018, Sihuan Pharmaceutical ranked seventh in terms of county market development with purchase amount reaching RMB29.4 billion.

Sales Figures of Key Products

CCV Products

Troxerutin and cerebroproptein hydrolysate injection (Brand name: Yuanzhijiu/Xingwei/Yinxintong)

This product is exclusive in China, with indications for treating chronic cerebrovascular diseases, including cerebrothrombosis, cerebral hemorrhage and cerebral vasospasm. The product has the competitive edge of scientific ingredients ratio and combining treatment with nourishment, and has dual effects on both neural and cardiovascular system. During the Year, revenue for this product reached RMB646.0 million, representing a year-on-year increase of 39.3%. By 31 December 2018, the product was regularly prescribed in 4,200 hospitals, among which 765 were added in 2018. The product has been included in 21 PRDLs. The number of provincial tenders won by Yuanzhijiu, Xingwei and Yinxintong are 29, 28 and 22, respectively, and the bidding price remained stable.

Cerebroside-kinin injection (Brand name: Oudimei/Aofutai/Weitong/Jielixin)

This product is exclusive in China, with indications for treating central nervous system lesions caused by stroke, alzheimer's disease, craniocerebral lesions and hypoxic-ischemic encephalopathy in newborns. The product is a compound preparation composed of a variety of ingredients aiding nerve repair and regeneration. The product has been included in the 2017 edition of the Interpretation of Clinical Pathways and Interpretation of Clinical Pathway and

Therapeutic Drugs (County level edition) and has been recommended by the section of rehabilitation medicine and the section of endocrine and metabolism diseases in the 2018 national-level edition of the Interpretation of Clinical Pathways. During the Year, revenue from this product reached RMB749.7 million, representing a year-on-year increase of 9.1%. By 31 December 2018, the product was regularly prescribed in 5,530 hospitals and 2,094 of them were covered in 2018. The product was included in 24 PRDLs. The numbers of provincial tenders won by Oudimei, Aofutai, Weitong and Jielixin are 27, 23, 21 and 20, respectively, and the bidding price remained stable.

Salvia Miltiorrhiza and Ligustrazine Hydrochloride Injection (Brand name: Wei'ao)

The Group is one of the only two manufacturers of Salvia Miltiorrhiza and Ligustrazine Hydrochloride Injection in China. This product is intended to treat occlusive cerebrovascular diseases, ischemic cardiovascular disease, diabetic complications and other CCV symptoms. During the Year, revenue from this product reached RMB332.9 million, representing a year-on-year increase of 53.7%. By 31 December 2018, the product was regularly prescribed in 5,182 hospitals and 1,309 of them were covered in 2018. The product was included in 19 PRDLs. The product had won 27 provincial tenders while the bidding price remained stable.

Cinepazide Maleate Injection (Brand name: Kelinao/Anjieli)

This product has been granted "Significant New Drugs Development" by National Major Scientific and Technological Special Project and received "Chinese Patent Gold Award" by State Intellectual Property Office (SIPO) in 2017. This product has dual effect on improving cerebral circulation and neural protection, and is intended to treat CCV and peripheral vascular diseases, including cerebral arteriosclerosis, cerebral thrombosis, coronary disease and Raynaud's disease. The product has been included in National Reimbursement Drug List ("**NRDL**"). The Group has already commenced post-launch re-evaluation study for this product, of which the progress and scale both outperform peers. During the Year, revenue from this product reached RMB 314.5 million, representing a year-on-year decrease of 19.3%. By 31 December 2018, the product was regularly prescribed in 5,173 hospitals and 1,276 of them were covered in 2018. The numbers of provincial tenders won by Kelinao and Anjieli are 29 and 30, respectively, and the bidding price remained stable.

Floium Ginkgo Extract and Tertam Ethypyrazine Sodium Chloride Injection (Brand name: Mainuokang)

This product is a compound preparation of floium ginkgo extract and tertram ethylpyrazine, with indications in treating ischemic CCV disease, including blood supply insufficiency, cerebral thrombosis, cerebral embolism, coronary heart diseases, angina, heart attack, cerebral dysfunction and Alzheimer's disease. Floium ginkgo extract and tertram ethylpyrazine are both included in NRDL and commonly used in clinical practice. During the Year, revenue from this product reached RMB59.7 million, representing a year-on-year increase of 9.3%. By 31 December 2018, this product was regularly prescribed in 423 hospitals and 176 of them were covered in 2018. The product was included in 10 PRDLs. This product (100 ml) had won 24 provincial tenders while the bidding price remained stable.

Non-CCV Product

Roxatidine Acetate Hydrochloride Injection (Brand name: Jie'ao)

This product is a novel H2 receptor antagonist, with indications in treating upper digestive tract hemorrhage caused by peptic ulcer and stress ulcer. This product suppresses gastric acid secretion and protects gastric mucosa, and has been included in the surgery section of the 2017 edition of the Interpretation of Clinical Pathways and the general medicine section of the Interpretation of Clinical Pathway and Therapeutic Drugs (county-level), and has been recommended by the digestive disease section of the 2018 national-level edition of the Interpretation of Clinical Pathways. According data from IMS, the market volume of acid inhibitor exceeds RMB16 billion which indicates broad market potential. Additionally, the excessive use of proton pump inhibitor led to prescription restrictions indicated in the 2017 edition of NRDL, which has brought market opportunity for this product. During the Year, revenue for this product reached RMB60.5 million, representing a year-on-year increase of 71.4%. By the end of 31 December 2018, this product was regularly prescribed in 477 hospitals and 314 of them were covered in 2018. The products was included in 11 PRDLs. The product had won 29 provincial tenders while the bidding price remained stable.

Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng)

This product is a compound preparation of ammonium glycyrrhizinate and cysteine and sodium chloride, with liver protecting and enzyme reducing effects. This product is intended to treat chronic and acute hepatitis, hepatotoxicity, early-stage cirrhosis and other conditions. This product is an exclusive patented compound preparation and is the only glycyrrhizic acid product suitable for elderlies and children. In addition, it is recommended by several clinical guidelines and expert consensus for its outperforming safety and efficacy properties, and was included in the rheumatology section of the 2018 edition of the Interpretation of Clinical Pathway and Therapeutic Drugs. During the Year, revenue from this product reached RMB44.6 million, representing a year-on-year increase of 131.2%. By the end of 31 December 2018, this product was regularly prescribed in 471 hospitals and 322 of them were covered in 2018. The product was included in 11 PRDLs. This product (100 ml) had won 28 provincial tenders while the bidding price remained stable.

During the Year, revenue from CCV products increased by 4.0% year-on-year to RMB2,685.7 million, accounting for 92.1% of the Group's total revenue. The growth was mainly attributable to the adjustment of product structure. Revenue from non-CCV products increased by 42.2% to RMB231.7 million, accounted for 7.9% of the Group's total revenue.

Sales of Key CCV Products

	For the year ended		Changes year-
	2017	**2018**	**on-year**
	RMB'000	*RMB'000*	
Product			
Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin injection)	686,909	749,710	9.1%
Yuanzhijiu/Xingwei/Xinyintong (Troxerutin and cerebroproptein hydrolysate injection)	463,879	645,958	39.3%
Wei' Ao (Salvia Miltiorrhiza and Ligustrazine Hydrochloride Injection)	216,549	332,880	53.7%
Kelinao/Anjieli (Cinepazide Maleate Injection)	389,969	314,547	-19.3%
Yikangning/Yimaining (Alprostadil lipid emulsion injection)	216,460	154,056	-28.8%
Aogan/Xiangtong (GM1)	151,400	153,516	1.4%
Yeduojia (Compound trivitamin B(II) for injection)	126,487	141,865	12.2%
Mainuokang (Floium Ginkgo Extract and Tertam Ethypyrazine Sodium Chloride Injection)	65,774	59,667	-9.3%
Nicotinamide injection	9,458	42,284	347.1%
Qu'ao (Cerebroprotein Hydrolysate)	78,909	29,076	-63.2%

Sales of key Non-CCV Products

	For the year ended		Changes year-
	2017	**2018**	**on-year**
	RMB'000	*RMB'000*	
Product			
Jie'ao (Roxatidine Acetate Hydrochloride For Injection)	35,269	60,457	71.4%
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	19,289	44,604	131.2%
Nicotinic acid injection (Vitamins)	989	27,866	2,718.0%
Ren'ao (Oxcarbazepine)	28,079	22,436	-20.1%
Xinnuoao (Clindamycin injection)	17,534	15,324	-12.6%

B. FUTURE PROSPECTS

Healthcare reform has a profound impact on the pharmaceutical industry. Facing external changes, Sihuan Pharmaceutical forged ahead with clear and firm strategies in sales and marketing and business operation. Riding on the hard-fought foundations, Sihuan Pharmaceutical will continue to enhance its fundamentals. With the aim to "strengthen R&D capabilities, optimize product resources and accelerate market expansion", the Group strides into the next stage of development.

The Group will stay focused on elevating overall product resources and prioritize R&D as the drive for sustainable growth. The Group will also direct more resources to creating a sustainable innovative drug and generic drug pipeline. Through in-house R&D, M&A and international collaboration, Sihuan Pharmaceutical will optimize its product portfolio and achieve a fuller pipeline for the mid- to long-term growth.

In terms of marketing, the Group will continue to improve its evidence-based research system and reinforce evidence-based research to strengthen clinical efficacy, safety and indications of its main products. Moreover, the Group will continue to conduct post-launch re-evaluation for its main products. In addition, The Group will dedicate more efforts in gaining widespread recognition for the efficacy of its products. The Group will accelerate the volume growth of our products with further penetration in primary markets and increase coverage in hospitals and respective medical departments, supported by nationwide academic promotion.

FINANCIAL REVIEW

Turnover

The Group expanded its CCV drug business by effective targeted market management when in parallel it strives to enhancing the sales of products in other therapeutic areas. With combined efforts of these two strategies, revenue of the Group for the Year has improved by approximately 6.2% to approximately RMB2,917.4 million (2017: RMB2,745.8 million).

Among which, income from CCV drugs, contributed to 92.1% of total revenue, was approximately RMB2,685.7 million. It has increased by approximately RMB102.8 million whereas the remaining revenue from sales of non-CCV drugs has significantly increased by 42.2%, or approximately RMB68.8 million, to approximately RMB231.7 million (2017: RMB162.9 million). It was attributable to increased hospital coverage of growth-stage products during the Year.

Cost of sales

Cost of sales for the Year amounted to approximately RMB538.3 million. It represented 18.5% of total revenue.

Gross profit

Gross profit for the Year amounted to approximately RMB2,379.1 million (2017: RMB1,986.9 million). It increased by approximately 19.7%. Overall gross profit margin increased from 72.4% last year to 81.5% for the Year. The higher profit margin generated was mainly attributable to the implementation of production cost control procedures of the Group and higher sales from products with better profit margin during the Year.

Other net gains

Other net gains for the Year amounted to RMB610.1 million (2017: RMB313.9 million). The increment of RMB296.2 million was mainly attributable to an increase in government grants compared to last year as well as gain on changes in fair value of financial assets at fair value through profit or loss during the Year.

Distribution expenses

Distribution expenses for the Year amounted to RMB271.1 million. The increment of RMB43.5 million was mainly attributable to the Group's enhanced academic promotion across the nation aiming for brand strengthening.

Administrative expenses

Administrative expenses for the Year amounted to RMB396.1 million (2017: RMB325.1 million). It sharply increased by approximately 21.8% as attributable to an increase in staff cost.

Research and development expenses

Research and development expenses for the Year amounted to RMB480.3 million (2017: RMB303.9 million) which represented a significant increase of approximately 58.0%. It was mainly due to more efforts in research and development activities and expansion of the research and development team.

Other expenses

Other expenses for the Year increased to RMB30.4 million (2017: RMB18.2 million). It was attributable to increase in foreign exchange loss.

Profit before income tax

Taking into account of the above, profit before income tax of the Group for the Year increased by approximately 16.4% to RMB2,012.2 million (2017: RMB1,729.1 million).

Income tax expenses

Income tax expenses of the Group for the Year amounted to RMB332.8 million (2017: RMB250.2 million), an increment of approximately 33.0% was recorded. It was principally due to higher withholding tax provided for the Year.

Profit for the year

Taking into account of the above, profit for the year increased by approximately 13.6% to RMB1,679.4 million (2017: RMB1,478.9 million).

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Year increased by 11.8% to RMB1,620.0 million (2017: RMB1,448.9 million).

Non-controlling interests

Non-controlling interests for the Year increased to RMB59.4 million (2017: RMB30.0 million).

Liquidity and financial resources

As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB3,314.8 million (31 December 2017: RMB831.9 million) and other financial assets amounted to RMB1,303.3 million (31 December 2017: RMB2,967.4 million).

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus fund investment. According to terms of the agreements signed, the total amount of investment conducted by the Group for the Year, reached approximately RMB1,274.0 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills, and bank deposits. As of 31 December 2018, the Group recognized total financial assets at fair value through profit or loss approximately RMB1,303.3 million, comprising of principal of investment of approximately RMB1,274.0 million and approximately RMB29.3 million interest income, in the consolidated statement of financial position. As at the date of this announcement, the Group has recorded total amount of the sold/repaid investment principal amounting to as RMB1,250.0 million.

The Group maintained strong financial position. As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB3,314.8 million (2017: RMB831.9 million). As at the same date, borrowings from non-controlling shareholders of a subsidiary of the Group amounted to RMB95.0 million (2017: Nil). The Group maintained net cash of over RMB3,219.8 million (2017: RMB831.9 million).

The Group had sufficient cash as at 31 December 2018. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Cash and cash equivalents	3,314,845	831,859

Trade and other receivables

The Group's trade receivables include credit sales of its products to be paid by its distributors. Other receivables of the Group consist of other receivables, bills receivable, prepayments to suppliers and amounts due from associates and other related parties. As at 31 December 2018, the Group's trade and other receivables were RMB857.2 million (31 December 2017: RMB747.1 million). The amount increased by RMB110.1 million and was mainly due to an increase in both amount due from third parties and prepaid income tax.

Inventory

As at 31 December 2018, inventories amounted to RMB301.1 million (31 December 2017: RMB228.0 million). The turnover period for the Year was 177 days (31 December 2017: 102 days). The increase was attributable to longer stock process of new subsidiaries which has commenced production of new products for future sales launch. The Group have no inventory impairment during the Year.

Property, plant and equipment

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 31 December 2018, net book value of the property, plant and equipment was RMB2,775.4 million, representing a 13.1% increment of RMB321.8 million compared to 31 December 2017. The major contributors were the expansion of existing factory, construction of new production plants and purchase of new equipments.

Goodwill

The Group's goodwill arose from the acquisition of subsidiaries. As at 31 December 2018, the net carrying amount of goodwill was RMB2,843.9 million (31 December 2017: RMB2,843.9 million).

Intangible assets

The Group's intangible assets mainly comprise customer relationships, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisitions of several drug R&D projects and self-developed R&D projects. As at 31 December 2018, net intangible assets amounted to RMB1,252.3 million (31 December 2017: RMB1,338.0 million)

Trade and other payables

The Group's trade and other payables mainly consist of trade payables, other payables, accrued expenses and payables to employee remuneration. As at 31 December 2018, trade and other payables amounted to RMB1,686.7 million (31 December 2017: RMB1,804.8 million), The decrease of RMB118.1 million was mainly attributable the outstanding balance of advances from customers which has been reclassified from trade and other payables to contract liabilities due to the adoption of IFRS 15.

Contingent liabilities and guarantees

As at 31 December 2018, the Group had no material contingent liabilities or guarantees (31 December 2017: Nil).

Off-balance sheet commitments and arrangements

As at 31 December 2018, the Group has neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations with any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

Capital commitment

As at 31 December 2018, the Group's total capital commitment was RMB321.1 million. It was mainly set aside to purchase of property, plant and equipment and intangible assets.

Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, wealth management products and other receivables.

All cash equivalents and bank deposits are deposited with certain reputable financial institutions in the PRC and high-quality international financial institutions outside the PRC. All those irrevocable bank bills, classified as notes receivable, are issued by banks with high credit rating in the PRC. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In respect of trade receivables, the Group has no high concentrations of credit risk and has policies in place to secure certain cash advances has been received upon the agreement of the related sales orders with customers. For customers granted with credit terms, the Group will consider its financial position, credit record and other factors when assessing customers credit quality. It also undertakes certain monitoring procedures to ensure appropriate follow-up action being taken to recover overdue debts. The Group regularly performs aging analysis, assesses credit risks and estimates recoverability based on historical data and cash recovery records of trade receivables.

In respect of wealth management products, the Group's exposure to credit risk is set out in note 6 to the financial statements.

In respect of other receivables, the Group will assess the credit quality of the debtors by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also review the recoverability of these other receivables on a regular basis and follow up on disputes or amounts overdue, if any. The executive Directors are of the opinion that the default of the counterparties is low.

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

Foreign exchange risk

The Group's functional currency is RMB. Financial instruments are denominated in RMB. The Group is subject to currency risk of United States Dollar ("**USD**"), Hong Kong Dollar ("**HKD**") or Euro ("**EUR**") against RMB as the Group's has some cash balances denominated in USD, HKD or EUR. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2018, the Group had no outstanding borrowings denominated in foreign currencies.

During the Year, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury policy

The Group finances its ordinary operations with internally generated resources.

Capital expenditure

The Group's capital expenditure mainly includes purchase of property, plant and equipment, investment property, land use rights and intangible assets. For the Year, the Group's capital expenditure amounted to RMB837.9 million, of which expense on property, plant and equipment and investment property, acquisition of land use rights and purchase or in-house development of intangible assets amounted to RMB710.8 million, RMB107.4 million and RMB19.7 million, respectively.

For the Year, the Group's investment in capital expenditure for R&D amounted to RMB78.6 million, of which RMB65.4 million was spent on property, plant and equipment. The remaining RMB13.2 million related to the purchase of and self-developed intangible assets.

During the Year, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with a third party, a subsidiary of a Hong Kong listed company, to acquire the entire registered capital of a British Virgin Islands company which held a property at a consideration of HK$555.0 million (equivalent to approximately RMB448.5 million). The transaction was completed on 29 March 2018. Part of the property acquired is used as the Company's office and the remaining portion has been leased out. The Group recorded the self-used part as fixed asset and the leased out part as investment property since completion of the transaction.

Material acquisition and disposal

There was no material acquisition and disposal during the Year.

Pledge of assets

As at 31 December 2018, none of the Group's assets was pledged.

Human Resources and Remuneration of Employees

Talents are an indispensable asset to the Group's success in a competitive environment. The Group is committed to providing competitive remuneration packages and regularly reviewing human resources policies, to encourage employees to work towards enhancing the value of the Company and promoting the sustainable growth of the Company.

As at 31 December 2018, the Group had 3,952 employees. For the Year, the Group's total salary and related costs was approximately RMB495.7 million (2017: RMB375.3 million).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During 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, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

Save as otherwise disclosed in this announcement, 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 during the reporting period.

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 audit committee of the Company (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 2018 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Friday, 31 May 2019. The notice of the Annual General Meeting will be published on the website of the Company and the Stock Exchange 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 Tuesday, 28 May 2019 to Friday, 31 May 2019 (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 Monday, 27 May 2019.

INFORMATION ON FINAL DIVIDEND

The Board recommended the declaration and payment of a final cash dividend of RMB1.3 cents per share (equivalent to HK1.5 cents per share) for the year ended 31 December 2018 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming Annual General Meeting. Together with an interim cash dividend of RMB0.4 cents per share, the total cash dividend for the year ended 31 December 2018 will be RMB1.7 cents per share.

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

The register of members of the Company will be closed from Monday, 10 June 2019 to Wednesday, 12 June 2019 (both dates inclusive). In order to qualify for the final 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 Thursday, 6 June 2019. The final cash dividend subject to the approval of the Shareholders at the Annual General Meeting, will be payable on or around Wednesday, 19 June 2019 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 12 June 2019.

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 2018 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 2018 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.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 18 March 2019

As at the date of this announcement, the executive directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Mr. Choi Yiau Chong, Dr. Zhang Jionglong and Ms. Chen Yanling; the non-executive director of the Company is Mr. Kim Jin Ha; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.