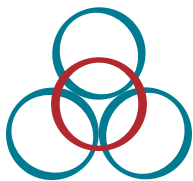


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四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.

四環醫藥控股集團有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

SUPPLEMENTAL ANNOUNCEMENT SUPPLEMENTAL INFORMATION IN RELATION TO THE 2022 ANNUAL REPORT

Reference is made to the annual report for the year ended 31 December 2022 (the “**Year**”) of Sihuan Pharmaceutical Holdings Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) published on 27 April 2023 (the “**2022 Annual Report**”). Unless otherwise defined, capitalized terms used in this announcement have the same meanings as defined in the 2022 Annual Report.

In addition to the information provided in the 2022 Annual Report, the Company hereby provides the following supplemental information regarding the details of the impairment loss.

IMPAIRMENT LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

As disclosed in the 2022 Annual Report, during the Year, the Group impaired the property, plant and equipment, intangible assets, goodwill, right-of-use assets, investment properties and investments accounted for using the equity method, the impairment loss of which were RMB1,727,119,000 in total (the “**Impairment**”). The main businesses involved in the impairment loss included generic pharmaceuticals, active pharmaceutical ingredients (the “**API(s)**”) and healthcare.

Included as part of the Impairment, the Group recognised full impairment loss for the carrying values of certain product development in progress and an impairment loss amounting to RMB3,912,000 on the intangible assets in relation to the generic medicine segment was recorded. This amount of impairment loss was assessed based on the individual-asset level, and was not included in the impairment testing based on CGUs.

REASONS FOR AND THE CIRCUMSTANCES LEADING TO THE IMPAIRMENT LOSS

As disclosed in the 2022 Annual Report, the Group performed impairment testing on assets annually or more frequently if events or change in circumstances indicate that the carrying amount may be impaired. As a result of the policy changes in the pharmaceutical industry, the sales price and sales volume of the products were affected in different degrees. According to the impairment test, the Company recognised the impairment loss of RMB1,727,119,000.

The breakdown of the amount of the impairment loss attributable to each of the company's three business segments is set out below:

Segment information	Amount of the Impairments (RMB'000)
Generic medicine <i>(Note 1)</i>	976,588
Innovative medicine and other medicine <i>(Note 2)</i>	314,455
Medical aesthetic products	—
Unallocated <i>(Note 3)</i>	436,076
Total	1,727,119

Notes:

1. The impairment in the segment of generic medicine is caused by the CGUs which have impairment indicators, which was mainly due to the projected cash flow of those CGUs being significantly impacted by the continuing implementation of centralized procurement policy (“**CPP**”) and more drug products being added to the Key Drug Monitoring Catalogue. For details, please refer to “changes from the year 2021 and reasons thereof” section below.
2. The impairment in the segment of innovative medicine and other medicine mainly relates to the CGUs of API. For details, please refer to “changes from the year 2021 and reasons thereof” section below.
3. The unallocated amounts represent the impairments on (1) investment in an associate of the Company (the “**Associate**”) and (2) the long-term assets of a subsidiary of the Company (the “**Subsidiary**”), both of which do not belong to any of the Company's three business segments. The impairment in the unallocated segment was mainly due to the projected cash flows of the investments or CGUs being significantly impacted by the following factors: (1) sales of main drug products of the Associate were negatively affected due to the inclusion of such products in the Key Drug Monitoring Catalogue and (2) the unsatisfactory performance of the Subsidiary due to the impact of Covid-19, the overall economic environment and the common loss-making situation in its industry.

Discontinued Projects

As disclosed in the 2022 Annual Report, due to the fierce competition within the pharmaceutical industry and the limitation of the Group's resource, the management of the Group considered the future return rate of certain projects was low and decided to discontinue further development of the aforementioned projects. Accordingly, an impairment loss amounting to RMB3,912,000 in relation to the generic medicine segment was recorded.

VALUATION METHOD AND KEY VALUE OF INPUTS USED IN THE VALUATION

Impairment Review and Valuation on CGUs with Indication that may be Impaired

Valuation methods

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management for the year ended 31 December 2022 and 2021.

Key assumption

Projected revenue:	Management determined the projected revenue based on the historical sales performance, adjusted for forward-looking factors specific to the policy and economic environment.
Gross profit margins:	Management determined budgeted gross profit margins based on past performance and their expectations of market development.
Terminal growth rate:	The terminal growth rates used are consistent with the inflation rate.
Discount rate:	The discount rates used are after tax and reflect specific risks relating to the relevant units. When determining the estimated discount rate, the Company used the key parameters by reference to certain listed companies of the same industry. Given the nature of the Company's business, the discount rate adopted falls within the reasonable range.

Key value of inputs

For details of the value used in the valuation in 2022, please refer to note 19 to the consolidated financial statements of the 2022 Annual Report.

Changes from the year 2021 and reasons thereof

The key assumptions, such as discount rate and terminal growth rate, on which the impairment review and valuation are based did not change significantly in the Year from the year 2021. However, the management have adjusted the revenue and gross profit forecast during the Year due to the following reasons:

- (1) the continuing implementation of CPP affecting a substantial amount of generic drug products of various CGUs. The management have considered (a) the price reduction in the generic drug products already caused by the implementation of the sixth batch of the CPP; (b) the imminent pricing impact to be caused by the full implementation of the seventh batch of the CPP in late 2022 and early 2023; and (c) the potential price reduction which will result from the upcoming negotiation of the eighth batch of the CPP from 2023 onward. This factor mainly affects the CGUs under the generic medicine sector;
- (2) the inclusion of products in the Key Drug Monitoring Catalogue. The management consider that the inclusion in the Key Drug Monitoring Catalogue would negatively affect the sales of that type of products. As a substantial portion of the Group's generic medicine and API sales are based on the drugs included in the most recent Key Drug Monitoring Catalogue which is expected to have long term impact going forward on the production and business of the Group, the management adjusted the relevant sales estimate and gross profit estimate in relation to such products manufactured by the relevant CGUs of the Group. This factor mainly affects the CGUs under both the generic medicine sector and the API sector; and
- (3) the supply chain disruption caused by pandemic and the measures to contain pandemic have resulted in a surge in the raw material price and transportation cost. This factor mainly affects the CGUs under both the generic medicine sector and the API sector.

Impairment Review and Valuation Based on the Individual-Asset Level

As disclosed in the 2022 Annual Report and the “Discontinued Projects” section above, the impairment loss amounting to RMB3,912,000 in relation to the generic medicine segment was assessed based on the individual-asset level, and was not included in the impairment testing based on CGUs. For details, please refer to the “Discontinued Projects” section above.

The supplemental information provided in this announcement does not affect any other information contained in the 2022 Annual Report. Save as disclosed above, the contents of the 2022 Annual Report remain unchanged.

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

Hong Kong, 23 May 2023

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), Dr. Zhang Jionglong, Ms. Chen Yanling and Ms. Miao Guili; and the independent non-executive directors of the Company are Mr. Tsang Wah Kwong, Dr. Zhu Xun and Mr. Wang Guan.