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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 2015**

	Year ended 31 December		Change
	2015 RMB'000	2014 RMB'000	
Key Income Statement Items			
Revenue	3,167,211	3,084,236	2.7%
Gross profit	2,228,054	2,111,422	5.5%
Operating profit	2,694,393	1,979,088	36.1%
Profit attributable to owners of the Company	2,062,378	1,671,281	23.4%
Key Financial Ratios			
Gross profit margin	70.35%	68.46%	
Net profit margin	65.12%	54.19%	
Earnings per share — Basic (RMB cents)	19.90	16.13	
Receivable Turnover (days)	60	82	
Inventory Turnover (days)	79	52	
Proposed final cash dividend per share (RMB cents)	4.5	1.3	

2015 FINANCIAL HIGHLIGHTS

- Profit attributable to owners of the Company increased by 23.4% to RMB2,062.4 million in 2015.
- Revenue of the Group increased by 2.7% from RMB3,084.2 million to RMB3,167.2 million in 2015.
- Basic earnings per share increased by approximately 23.4% over 2014 to approximately RMB19.9 cents in 2015.
- The Board recommends the declaration and payment of a final cash dividend of RMB4.5 cents per share which is subject to the approval of the Shareholders at the forthcoming annual general meeting.

The board (the “**Board**”) of directors (the “**Directors**”) of Sihuan Pharmaceutical Holdings Group Ltd. (“**Sihuan Pharmaceutical**” or the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2015 (the “**Year**”) together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		2,051,370	1,704,128
Investment properties		30,881	32,659
Intangible assets	4	2,817,065	2,815,711
Land use rights		596,407	362,364
Investments accounted for using the equity method	19	1,189,118	358,491
Deferred income tax assets		18,146	61,906
Other non-current assets		<u>171,075</u>	<u>361,228</u>
		<u>6,874,062</u>	<u>5,696,487</u>
Current assets			
Inventories		233,028	177,181
Trade and other receivables	5	972,267	1,240,666
Available-for-sale financial assets	6	1,959,280	1,617,631
Cash and cash equivalents		<u>2,282,370</u>	<u>1,317,945</u>
		5,446,945	4,353,423
Assets of disposal group classified as held for sale		<u>—</u>	<u>1,273,073</u>
		<u>5,446,945</u>	<u>5,626,496</u>
Total assets		<u>12,321,007</u>	<u>11,322,983</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	7	85,610	85,610
Share premium	7	5,574,848	5,574,848
Other reserves		172,541	151,897
Retained earnings		<u>5,262,640</u>	<u>3,479,322</u>
		11,095,639	9,291,677
Non-controlling interests		<u>96,093</u>	<u>114,336</u>
Total equity		<u>11,191,732</u>	<u>9,406,013</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		125,876	130,390
Other non-current liabilities	8	61,220	89,912
Borrowings	9	<u>8,280</u>	<u>3,500</u>
		<u>195,376</u>	<u>223,802</u>
Current liabilities			
Trade and other payables	10	664,308	1,105,384
Current income tax liabilities		217,696	194,572
Other current liabilities	8	<u>51,895</u>	<u>96,338</u>
		933,899	1,396,294
Liabilities of disposal group classified as held for sale		<u>—</u>	<u>296,874</u>
		<u>933,899</u>	<u>1,693,168</u>
Total liabilities		<u>1,129,275</u>	<u>1,916,970</u>
Total equity and liabilities		<u>12,321,007</u>	<u>11,322,983</u>
Net current assets		<u>4,513,046</u>	<u>3,933,328</u>
Total assets less current liabilities		<u>11,387,108</u>	<u>9,629,815</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	<i>Note</i>	Year ended 31 December	
		2015	2014
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	11	3,167,211	3,084,236
Cost of sales	12	<u>(939,157)</u>	<u>(972,814)</u>
Gross profit		2,228,054	2,111,422
Other income	11	26,334	46,220
Other gains — net	11	431,505	451,754
Gain on derecognition of a subsidiary	18	619,464	—
Distribution costs	12	(155,112)	(150,164)
Administrative expenses	12	<u>(455,852)</u>	<u>(480,144)</u>
Operating profit		2,694,393	1,979,088
Finance income	13	114,843	116,983
Finance expenses	13	<u>(398)</u>	<u>(18,004)</u>
Finance income — net		114,445	98,979
Share of profit/(loss) of investments accounted for using the equity method	19	<u>32,908</u>	<u>(4,644)</u>
Profit before income tax		2,841,746	2,073,423
Income tax expense	14	<u>(796,954)</u>	<u>(388,542)</u>
Profit for the year		<u>2,044,792</u>	<u>1,684,881</u>
Profit attributable to:			
Owners of the Company		2,062,378	1,671,281
Non-controlling interests		<u>(17,586)</u>	<u>13,600</u>
		<u>2,044,792</u>	<u>1,684,881</u>

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

	Year ended 31 December	
	2015	2014
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	2,044,792	1,684,881
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial assets	6 <u>12,249</u>	<u>10,957</u>
Other comprehensive income for the year, net of tax	<u>12,249</u>	<u>10,957</u>
Total comprehensive income for the year	<u>2,057,041</u>	<u>1,695,838</u>
Attributable to:		
Owners of the Company	2,074,627	1,682,238
Non-controlling interests	<u>(17,586)</u>	<u>13,600</u>
Total comprehensive income for the year	<u>2,057,041</u>	<u>1,695,838</u>
Earnings per share attributable to owners of the Company during the year (expressed in RMB cents per share)		
— Basic and diluted earnings per share	15 <u>19.90</u>	<u>16.13</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2014	<u>44,419</u>	<u>5,573,951</u>	<u>89,329</u>	<u>2,113,760</u>	<u>7,821,459</u>	<u>115,485</u>	<u>7,936,944</u>
Comprehensive income							
Profit for the year	—	—	—	1,671,281	1,671,281	13,600	1,684,881
Other comprehensive income							
Change in value of available-for-sale financial assets, net of tax	<u>—</u>	<u>—</u>	<u>10,957</u>	<u>—</u>	<u>10,957</u>	<u>—</u>	<u>10,957</u>
Total other comprehensive income, net of tax	<u>—</u>	<u>—</u>	<u>10,957</u>	<u>—</u>	<u>10,957</u>	<u>—</u>	<u>10,957</u>
Total comprehensive income	<u>—</u>	<u>—</u>	<u>10,957</u>	<u>1,671,281</u>	<u>1,682,238</u>	<u>13,600</u>	<u>1,695,838</u>
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Issuance of ordinary shares	56	42,032	—	—	42,088	—	42,088
Bonus issue of ordinary shares	41,135	(41,135)	—	—	—	—	—
Employees share award scheme:							
- value of employee service	—	—	28,273	—	28,273	—	28,273
Dividends	—	—	—	(243,558)	(243,558)	—	(243,558)
Transfer to PRC statutory reserve fund	<u>—</u>	<u>—</u>	<u>62,161</u>	<u>(62,161)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total contributions by and distributions to owners of the Company, recognised directly in equity	41,191	897	90,434	(305,719)	(173,197)	—	(173,197)
Changes in ownership interests in a subsidiary without change of control	<u>—</u>	<u>—</u>	<u>(38,823)</u>	<u>—</u>	<u>(38,823)</u>	<u>(14,749)</u>	<u>(53,572)</u>
Total transactions with owners, recognised directly in equity	<u>41,191</u>	<u>897</u>	<u>51,611</u>	<u>(305,719)</u>	<u>(212,020)</u>	<u>(14,749)</u>	<u>(226,769)</u>
Balance as at 31 December 2014	<u>85,610</u>	<u>5,574,848</u>	<u>151,897</u>	<u>3,479,322</u>	<u>9,291,677</u>	<u>114,336</u>	<u>9,406,013</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to owners of the Company						Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
Balance as at 1 January 2015	<u>85,610</u>	<u>5,574,848</u>	<u>151,897</u>	<u>3,479,322</u>	<u>9,291,677</u>	<u>114,336</u>	<u>9,406,013</u>	
Comprehensive income								
Profit for the year	—	—	—	2,062,378	2,062,378	(17,586)	2,044,792	
Other comprehensive income								
Change in value of available-for-sale financial assets, net of tax	<u>—</u>	<u>—</u>	<u>12,249</u>	<u>—</u>	<u>12,249</u>	<u>—</u>	<u>12,249</u>	
Total other comprehensive income, net of tax	<u>—</u>	<u>—</u>	<u>12,249</u>	<u>—</u>	<u>12,249</u>	<u>—</u>	<u>12,249</u>	
Total comprehensive income	<u>—</u>	<u>—</u>	<u>12,249</u>	<u>2,062,378</u>	<u>2,074,627</u>	<u>(17,586)</u>	<u>2,057,041</u>	
Total contributions by and distributions to owners of the Company, recognised directly in equity								
Employees share award scheme: - value of employee service	—	—	13,321	—	13,321	—	13,321	
Dividends	—	—	—	(279,832)	(279,832)	—	(279,832)	
Transfer to PRC statutory reserve fund	<u>—</u>	<u>—</u>	<u>10,578</u>	<u>(10,578)</u>	<u>—</u>	<u>—</u>	<u>—</u>	
Total contributions by and distributions to owners of the Company, recognised directly in equity	<u>—</u>	<u>—</u>	<u>23,899</u>	<u>(290,410)</u>	<u>(266,511)</u>	<u>—</u>	<u>(266,511)</u>	
Derecognition of a subsidiary	—	—	(11,350)	11,350	—	(72,326)	(72,326)	
Non-controlling interests arising from business combination	—	—	—	—	—	34,495	34,495	
Non-controlling interests arising from newly established subsidiary	—	—	—	—	—	36,527	36,527	
Changes in ownership interests in subsidiaries without change of control	<u>—</u>	<u>—</u>	<u>(4,154)</u>	<u>—</u>	<u>(4,154)</u>	<u>647</u>	<u>(3,507)</u>	
Total transactions with owners, recognised directly in equity	<u>—</u>	<u>—</u>	<u>8,395</u>	<u>(279,060)</u>	<u>(270,665)</u>	<u>(657)</u>	<u>(271,322)</u>	
Balance as at 31 December 2015	<u><u>85,610</u></u>	<u><u>5,574,848</u></u>	<u><u>172,541</u></u>	<u><u>5,262,640</u></u>	<u><u>11,095,639</u></u>	<u><u>96,093</u></u>	<u><u>11,191,732</u></u>	

CONSOLIDATED STATEMENT OF CASH FLOW

		Year ended 31 December	
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations		2,215,391	2,010,909
Income tax paid		<u>(646,781)</u>	<u>(249,973)</u>
Net cash generated from operating activities		<u>1,568,610</u>	<u>1,760,936</u>
Cash flows from investing activities			
Capital contribution to associates		(98,578)	(329,066)
Net cash inflow from disposal of a subsidiary	18	628,282	—
Tax paid on disposal of a subsidiary		(40,620)	—
Acquisition of subsidiaries		(96,418)	—
Payment for purchase of property, plant and equipment		(410,023)	(264,080)
Prepayment for purchase of property, plant and equipment		—	(37,748)
Purchase of intangible assets		(85,033)	(42,744)
Prepayment for purchase of intangible assets		(22,075)	(149,000)
Purchases of land use rights		(77,794)	(84,869)
Prepayment for acquisition of land use rights		—	(174,480)
Purchases of available-for-sale financial assets	6	(16,268,986)	(8,748,780)
Proceeds from disposal of available-for-sale financial assets	6	15,939,586	7,918,180
Proceeds from disposal of property, plant and equipment		327	11,805
Proceeds from disposal of land use rights		—	3,085
Decrease of term deposits with initial term of over three months		—	233,651
Interest received		<u>144,840</u>	<u>105,389</u>
Net cash used in investing activities		<u>(386,492)</u>	<u>(1,558,657)</u>
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		—	42,088
Proceeds from borrowings		4,780	3,500
Repayment of borrowings		—	(186,680)
Acquisition of additional interest in a subsidiary		(3,507)	(53,572)
Capital contribution by non-controlling interests to subsidiaries		19,877	—
Dividends paid to company's shareholders	16	(279,832)	(243,558)
Interest paid		<u>(160)</u>	<u>(5,817)</u>
Net cash used in financing activities		<u>(258,842)</u>	<u>(444,039)</u>
Net increase/(decrease) in cash and cash equivalents		923,276	(241,760)
Cash and cash equivalents at beginning of year		<u>1,359,094</u>	<u>1,600,854</u>
Cash and cash equivalents at end of year		<u><u>2,282,370</u></u>	<u><u>1,359,094</u></u>

At 31 December 2014, the cash and cash equivalents in the consolidated statement of cash flow included RMB41,149,000 which was included in the assets of the disposal group classified as held for sale in the consolidated statement of financial position.

Material non-cash transactions:

During the Year, included in the Group's capital injection of RMB70,046,000 to an associate for its 39% equity interest were buildings at fair value of RMB11,082,000 and land use rights at fair value of RMB6,459,000.

Notes:

1. GENERAL INFORMATION

The Company is incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the “**Group**”) are research and development (“**R&D**”), manufacturing and sale of pharmaceutical products in the People’s Republic of China (the “**PRC**”).

The ultimate holding company of the Company is Plenty Gold Enterprises Limited (“**Plenty Gold**”), a limited liability company incorporated under the laws of the British Virgin Islands on 10 March 2004.

The address of the Company’s registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The address of the principal place of business of the Group is 21/F, Building 2, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

The Company had its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 28 October 2010.

These consolidated financial statements are presented in units of Renminbi (“**RMB**”) thousand Yuan, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board on 29 March 2016.

2. BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2.1 Changes in accounting policy and disclosures

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

Amendments to IAS 19	Defined Benefit Plans : Employee Contributions
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs

2.1 Changes in accounting policy and disclosures (Continued)

Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs
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The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the reporting period. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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

IFRS 9	Financial Instruments ³
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁶
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
IFRS 14	Regulatory Deferred Accounts ⁵
IFRS 15	Revenue from Contracts with Customers ³
IFRS 16	Leases ⁴
Amendments to IAS 1	Disclosure Initiative ¹
Amendments to IAS 7	Disclosure Initiative ²
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ¹
Amendments to IAS 27	Equity Method in Separate Financial Statements ¹
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for annual periods beginning on or after 1 January 2019

⁵ Effective for an entity that first adopt IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁶ No mandatory effective date yet determined

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors 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 consider the business from product perspective. The Group is engaged in only one business segment, being the R&D, manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2015, all sales are from distributors and none of the distributors of the Group contributed to 10% or more of the Group's revenue (2014: None).

All of the Group's operations, customers and most of the Group's assets are located in the PRC. Accordingly, no geographical analysis of revenue, non-current assets and customers is presented.

4. INTANGIBLE ASSETS

	Goodwill <i>RMB'000</i>	Customer relationship <i>RMB'000</i>	Deferred development costs <i>RMB'000</i>	Product development in progress <i>RMB'000</i>	Others <i>RMB'000</i> <i>(a)</i>	Total <i>RMB'000</i>
At 1 January 2014						
Cost	2,263,996	433,932	428,616	209,478	22,521	3,358,543
Accumulated amortisation	—	(162,158)	(178,973)	—	(10,030)	(351,161)
Impairment	(37,060)	—	(1,063)	(88,637)	—	(126,760)
	<u>(37,060)</u>	<u>(162,158)</u>	<u>(180,036)</u>	<u>(88,637)</u>	<u>(10,030)</u>	<u>(477,921)</u>
Net book amount	<u>2,226,936</u>	<u>271,774</u>	<u>248,580</u>	<u>120,841</u>	<u>12,491</u>	<u>2,880,622</u>
Year ended 31 December 2014						
Opening net book amount	2,226,936	271,774	248,580	120,841	12,491	2,880,622
Additions	—	—	4,000	38,482	262	42,744
Amortisation charge	—	(77,293)	(27,293)	—	(3,069)	(107,655)
Closing net book amount	<u>2,226,936</u>	<u>194,481</u>	<u>225,287</u>	<u>159,323</u>	<u>9,684</u>	<u>2,815,711</u>
At 31 December 2014						
Cost	2,263,996	433,932	432,616	247,960	22,783	3,401,287
Accumulated amortization	—	(239,451)	(206,266)	—	(13,099)	(458,816)
Impairment	(37,060)	—	(1,063)	(88,637)	—	(126,760)
	<u>(37,060)</u>	<u>(239,451)</u>	<u>(207,329)</u>	<u>(88,637)</u>	<u>(13,099)</u>	<u>(585,576)</u>
Net book amount	<u>2,226,936</u>	<u>194,481</u>	<u>225,287</u>	<u>159,323</u>	<u>9,684</u>	<u>2,815,711</u>
Year ended 31 December 2015						
Opening net book amount	2,226,936	194,481	225,287	159,323	9,684	2,815,711
Additions	—	—	7,000	77,351	682	85,033
Acquisition of a subsidiary	20,792	—	12,206	—	—	32,998
Amortisation charge	—	(77,293)	(28,800)	—	(3,132)	(109,225)
Impairment	—	—	—	(7,452)	—	(7,452)
Closing net book amount	<u>2,247,728</u>	<u>117,188</u>	<u>215,693</u>	<u>229,222</u>	<u>7,234</u>	<u>2,817,065</u>
At 31 December 2015						
Cost	2,284,788	433,932	451,822	325,311	23,465	3,519,318
Accumulated amortisation	—	(316,744)	(235,066)	—	(16,231)	(568,041)
Impairment	(37,060)	—	(1,063)	(96,089)	—	(134,212)
	<u>(37,060)</u>	<u>(316,744)</u>	<u>(236,129)</u>	<u>(96,089)</u>	<u>(16,231)</u>	<u>(702,253)</u>
Net book amount	<u>2,247,728</u>	<u>117,188</u>	<u>215,693</u>	<u>229,222</u>	<u>7,234</u>	<u>2,817,065</u>

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

5. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables — third parties	99,512	157,817
Notes receivables	426,254	375,202
Prepaid value added tax	45,782	198,283
Amount receivable from partial disposal of Jilin Sichang Pharmaceutical Co., Ltd (“Jilin Sichang”)	—	177,166
Prepayments to suppliers	112,513	107,830
Prepaid income tax	5,397	52,580
Amount due from an associate	25,953	—
Other receivables	<u>256,856</u>	<u>171,788</u>
	<u>972,267</u>	<u>1,240,666</u>

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

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	69,007	89,900
3 to 6 months	116	43,910
6 months to 1 year	6,745	14,696
More than 1 year	<u>23,644</u>	<u>9,311</u>
	<u>99,512</u>	<u>157,817</u>

As at 31 December 2015 and 2014, no trade receivables were impaired and no allowance was made. The trade receivables are fully performing.

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

The amount due from an associate is interest-free, unsecured and repayable on demand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	1,617,631	776,074
Additions	16,268,986	8,748,780
Disposals	(15,939,586)	(7,918,180)
Change in fair value of available-for-sale financial assets	<u>12,249</u>	<u>10,957</u>
At 31 December	<u><u>1,959,280</u></u>	<u><u>1,617,631</u></u>

Available-for-sale financial assets include the following:

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term investments	<u><u>1,959,280</u></u>	<u><u>1,617,631</u></u>

The amount represents short-term investments placed in certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC with maturity within 6 months and non-determinable return rate. These investments are all denominated in RMB.

The fair values of these investments are based on average estimated return rate of 4.0% (2014: 4.6%).

The maximum exposure to credit risk at the reporting date is the carrying value of these investments.

The credit quality of available-for-sale financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. None of these financial assets is either past due or impaired.

7. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares <i>Share '000</i>	Number of issued and fully paid ordinary shares <i>Share '000</i>	Share capital <i>RMB '000</i>	Share premium <i>RMB '000</i>	Total <i>RMB '000</i>
As at 1 January 2014 (HK\$0.01 per share)	10,000,000	5,175,024	44,419	5,573,951	5,618,370
Movement during 1 January 2014 to 31 December 2014:					
Issuance of ordinary shares	—	7,067	56	42,032	42,088
Increase of authorised ordinary shares	90,000,000	—	—	—	—
Bonus issue of ordinary shares	—	5,182,091	41,135	(41,135)	—
As at 31 December 2014 (HK\$0.01 per share)	<u>100,000,000</u>	<u>10,364,182</u>	<u>85,610</u>	<u>5,574,848</u>	<u>5,660,458</u>
As at 1 January 2015 to 31 December 2015 (HK\$0.01 per share)	<u>100,000,000</u>	<u>10,364,182</u>	<u>85,610</u>	<u>5,574,848</u>	<u>5,660,458</u>

8. OTHER LIABILITIES

	As at 31 December	
	2015	2014
	<i>RMB '000</i>	<i>RMB '000</i>
Deferred revenue for sales of distribution rights	77,831	102,369
Deferred government grants	<u>35,284</u>	<u>83,881</u>
	<u>113,115</u>	<u>186,250</u>
Less: current portion		
Deferred revenue for sales of distribution rights	34,156	32,107
Deferred government grants	<u>17,739</u>	<u>64,231</u>
	<u>51,895</u>	<u>96,338</u>
Non-current portion	<u>61,220</u>	<u>89,912</u>

9. BORROWINGS

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
- Other loans	<u>8,280</u>	<u>3,500</u>

At 31 December 2015, the Group's borrowings were repayable as follows:

	As at 31 December	
	Others loans	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	—	—
Between 1 and 2 year	8,280	—
Between 2 and 5 years	<u>—</u>	<u>3,500</u>
	<u>8,280</u>	<u>3,500</u>

The borrowings bear interest rates ranging from 3.0% to 5.3% (2014: at 3.0%) annually.

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

10. TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	72,624	40,818
Advances from customers	203,174	225,056
Deferred gain on partial disposal of Jilin Sichang	—	193,590
Costs of construction and purchase of equipment payables	76,844	150,697
Amount due to an associate (Note (c))	6,600	37,646
Amounts due to other related parties (Note (b) and (c) below)	24,834	98,260
Deposit payables	155,756	125,759
Accrued reimbursement to distributors	38,327	94,301
Accrued performance bonus to directors	—	66,800
Other taxes payable	5,074	19,972
Salaries payables	26,816	14,710
Other payables	<u>54,259</u>	<u>37,775</u>
	<u>664,308</u>	<u>1,105,384</u>

10. TRADE AND OTHER PAYABLES (Continued)

At 31 December 2015, the ageing analysis of the trade payable based on invoice date is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 6 months	70,488	36,736
6 months to 1 year	80	102
More than 1 year	<u>2,056</u>	<u>3,980</u>
	<u>72,624</u>	<u>40,818</u>

Notes:

- (a) The fair values of trade and other payable approximate their carrying amounts.
- (b) Amounts due to other related parties

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Dr. Che Fengsheng	—	29,571
Network Victory Limited*	<u>24,834</u>	<u>68,689</u>
	<u>24,834</u>	<u>98,260</u>

* Dr. Che Fengsheng, a director of the Company, has beneficial interest in Network Victory Limited.

- (c) Amounts due to an associate and other related parties are interest-free, unsecured and repayable on demand.

11. REVENUE, OTHER INCOME AND OTHER GAINS — NET

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue:		
Sales of pharmaceutical products (Note)	3,158,042	3,084,236
Revenue from general hospital services	<u>9,169</u>	<u>—</u>
	<u><u>3,167,211</u></u>	<u><u>3,084,236</u></u>
Other income:		
Sale of distribution rights	24,845	42,682
Rental income	<u>1,489</u>	<u>3,538</u>
	<u><u>26,334</u></u>	<u><u>46,220</u></u>
Other gains — net:		
Government grants	541,029	417,238
Donation	—	(513)
Tax surcharge (Note 14)	(96,809)	—
Others	<u>(12,715)</u>	<u>35,029</u>
	<u><u>431,505</u></u>	<u><u>451,754</u></u>

Note:

Sales of pharmaceutical products represent the sales value of goods supplied to customers, net of sales tax, value-added tax, sales returns and commercial discounts. The marketing and promotion expenses of RMB141,744,000 (2014: RMB810,935,000) paid to marketing research agents, which were eventually, directly or indirectly, reimbursed to the customers, were regarded, in substance, as sales discounts to customers and have been deducted against the sales value of goods sold.

12. EXPENSES BY NATURE

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Research and development costs:		
Research expenses	107,625	121,354
Amortisation of deferred development costs	<u>28,800</u>	<u>27,293</u>
	136,425	148,647
Raw materials used	544,045	633,627
Changes in inventories of finished goods and work in progress	54,338	48,237
Employee benefit expenses	248,822	299,321
Depreciation of property, plant and equipment	136,969	90,545
Depreciation of investment properties	1,778	1,778
Amortisation of intangible assets excluding the amortisation of deferred development costs	80,425	80,362
Business tax and surcharges	48,895	69,203
Office expenses	55,872	53,091
Travelling expenses	36,553	38,321
Professional services expense	44,290	25,239
Transportation expenses	26,904	23,683
Utilities and property management fee	18,554	11,976
Amortisation of land use rights	14,666	9,448
Advertising and promotional expenses	21,274	6,066
Auditors' remuneration		
- Audit services	2,950	13,000
- Non-audit services	—	300
Entertainment expenses	6,727	5,556
Others	<u>70,634</u>	<u>44,722</u>
Total cost of sales, distribution costs and administrative expenses	<u><u>1,550,121</u></u>	<u><u>1,603,122</u></u>

13. FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Exchange gain	4,919	—
Interest income	<u>109,924</u>	<u>116,983</u>
Finance income	<u>114,843</u>	<u>116,983</u>
Exchange loss	—	(11,715)
Bank charges	(238)	(472)
Interest expense	<u>(160)</u>	<u>(5,817)</u>
Finance expenses	<u>(398)</u>	<u>(18,004)</u>
Net finance income	<u><u>114,445</u></u>	<u><u>98,979</u></u>

14. INCOME TAX EXPENSE

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation:		
- Provision for the year	381,424	340,981
- Additional charge, net of over-provision, in respect of prior years (note below)	326,284	—
Deferred tax	<u>89,246</u>	<u>47,561</u>
Income tax expense	<u><u>796,954</u></u>	<u><u>388,542</u></u>

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2015 (2014: nil).

14. INCOME TAX EXPENSE (Continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit before tax	<u>2,841,746</u>	<u>2,073,423</u>
Tax calculated at the PRC applicable statutory tax rates of 25% (2014: 25%)	710,436	518,356
Tax effects of:		
— Utilisation of previously unrecognised tax losses	(743)	(2,826)
— Effect of tax concessions and exemption	(318,864)	(150,559)
— Additional charge, net of over-provision, in respect of prior years	326,284	—
— Expenses not deductible for tax purposes	74,322	21,466
— Income not taxable for tax purposes	(10,669)	—
— Tax losses for which no deferred income tax asset was recognised	<u>16,188</u>	<u>2,105</u>
Income tax expense	<u>796,954</u>	<u>388,542</u>

Note:

In or around end of 2015, Jilin Sihuan Pharmaceutical Co., Ltd (“**Jilin Sihuan**”), a wholly-owned subsidiary of the Company, received a demand from the Meihekou Office of the State Administration of Taxation (“**Meihekou SAT**”) for payment of additional income tax in an aggregate sum of RMB326,758,000. According to the Meihekou SAT, notwithstanding that the annual tax returns filed by Jilin Sihuan for each of the years from 2011 to 2014 were previously examined and approved by the local authority and that the related tax liabilities were assessed and settled, the Meihekou SAT considered that certain expenses incurred by Jilin Sihuan in the period between 2011 and 2014 which were claimed as tax deductibles does not fully comply with the “spirit” of the Notice of the Organization and Standardization of Tax Incentive Policies (Guofa [2014] No. 62) published on 27 November 2014 and Notice of Relevant Matters in relation to Tax Incentive Policies (Guofa [2015] No. 25) published on 19 May 2015 (collectively, the “**Tax Incentive Policies**”). Accordingly, Jilin Sihuan paid further income tax in the total sum of RMB326,758,000 together with the related surcharge of RMB96,809,000 (Note 11).

14. INCOME TAX EXPENSE (Continued)

Jilin Sihuan subsequently discussed with the local government of Meihekou about the demand from the Meihekou SAT. The additional income tax and the related surcharge charge in the sum of RMB423,567,000 were settled by the Group and charged to the profit or loss for the year ended 31 December 2015, and out of such amount paid by the Group, the local government of Meihekou compensated the Group by awarding RMB169,426,800 in government grants (Note 11) for the year ended 31 December 2015.

15. 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	
	2015	2014
Profit attributable to owners of the Company (<i>RMB'000</i>)	2,062,378	1,671,281
Weighted average number of ordinary shares in issue for basic earnings per share (<i>Share'000</i>)	<u>10,364,182</u>	<u>10,363,369</u>
Basic earnings per share (<i>RMB cents per share</i>)	<u>19.90</u>	<u>16.13</u>

(b) Diluted

There is no dilution to earnings per share during 2015 and 2014 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share equal the basic earnings per share.

16. DIVIDENDS

The dividends paid in 2015 and 2014 were RMB279,832,000 and RMB243,558,000, respectively. The declaration and payment of a final cash dividend in respect of the year ended 31 December 2015 of RMB466,388,000 was recommended by the Board and is to be proposed at the forthcoming annual general meeting of the Company. These financial statements do not reflect this final dividend.

17. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Property, plant and equipment	216,475	215,150
Commitment of additional capital injection to Renfang Medical Holdings Ltd.	156,124	156,124
Land use rights	—	58,179
Intangible assets — product development in progress	142,263	18,447
Commitment of investment in an associate	—	15,000
	<u>514,862</u>	<u>462,900</u>

(b) Operating lease commitments

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 1 year	13,411	975
Between 2 to 5 years	54,352	1,466
More than 5 years	<u>70,588</u>	<u>—</u>
	<u>138,351</u>	<u>2,441</u>

18. DISPOSAL OF INTEREST IN A SUBSIDIARY

In July 2011, the Group entered into an agreement with an independent third party, Shandong Buchang Pharmaceutical Co., Ltd. (“**Shandong Buchang**”) (the “**Agreement**”). Pursuant to the Agreement, Shandong Buchang agreed conditionally to purchase 50% equity interest in Jilin Sichang, which shall be transferred by 2 steps, being the first transfer of 19% (“**First Transfer**”) and the second transfer of 31% (“**Second Transfer**”) equity interest in Jilin Sichang, respectively, for an aggregate cash consideration of RMB637,500,000. After completion of the 50% transfer of equity interest in January 2015, Jilin Sichang is jointly controlled by the Group and Shandong Buchang. In November 2011, a 19% equity interest of Jilin Sichang, which represented First Transfer, was transferred at a cash consideration of RMB242,250,000, of which a deposit of RMB100,000,000 was received in 2011. The difference between the consideration of the 19% equity interest and the value of the equity interest amounted to RMB193,590,000 was recorded as deferred gain in the previous years, as the Second Transfer was not yet completed until January 2015 as disclosed below.

On 2 January 2013, the Group and Shandong Buchang mutually agreed to extend the completion of Second Transfer to an earlier date of 31 December 2014 or the 60th business day after Shandong Buchang consummate the initial public offering in the PRC.

On 5 January 2015, the Group and Shandong Buchang entered into a supplemental agreement pursuant to which, the aggregate consideration for the disposal of 50% equity interest in Jilin Sichang was revised to RMB769,431,000.

The disposal of 50% equity interest in Jilin Sichang was completed in January 2015 after finalisation of certain legal procedures. After date of completion of the Second Transfer in January 2015, which was regarded as the date of disposal of 50% equity interests in Jilin Sichang, the equity interests owned by Group and Shandong Buchang in Jilin Sichang are 50% and 50%, respectively.

18. DISPOSAL OF INTEREST IN A SUBSIDIARY (Continued)

The aggregate amounts of assets and liabilities attributable to Jilin Sichang on the date of disposal of its 50% equity interest in January 2015 were as follows:

	<i>RMB'000</i>
Net assets derecognised:	
Intangible assets	752,230
Property, plant and equipment	335,152
Land use rights	62,489
Inventories	13,501
Other assets	73,142
Cash and cash equivalents	41,149
Trade and other payables	(369,091)
Deferred tax liabilities	(59,939)
Non-controlling interest	<u>(23,666)</u>
Net assets derecognised	<u>824,967</u>
Gain on derecognition of a subsidiary	
Consideration for 50% equity interest in Jilin Sichang disposed	769,431
Fair value of remaining 50% equity interest in Jilin Sichang, recognised as an investment in a joint venture accounted for using the equity method (Note 19)	675,000
Net assets derecognised	<u>(824,967)</u>
	<u>619,464</u>
Analysis of net cash inflow arising on disposal of a subsidiary:	
Cash consideration received	769,431
Less: Deposit received in 2011	(100,000)
Less: Cash and bank balances disposed of	<u>(41,149)</u>
Net cash received in 2015	<u><u>628,282</u></u>

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance at 1 January	358,491	34,069
Establishment of associates	—	329,066
Capital contribution to associates	122,719	—
Upon derecognition of Jilin Sichang (Note 18)	675,000	—
Share of post-tax profit/(loss) of associates and a joint-venture	<u>32,908</u>	<u>(4,644)</u>
Closing balance at 31 December	<u><u>1,189,118</u></u>	<u><u>358,491</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

2015 was the most challenging year ever for Sihuan Pharmaceutical. Various challenges were posed by drastic market policy changes and the increasingly competitive market, and there were also the pressure and impact resulting from the suspension of trading of the Company's shares. Notwithstanding the unfavorable market conditions, the challenges and the interference, Sihuan Pharmaceutical continued to grow, had stable operations and maintained its leading position in the prescription drug market.

According to IMS Health Incorporated ("IMS"), the Group maintained its No. 1 position in the cardio-cerebral vascular ("CCV") prescription drug market of the People's Republic of China ("PRC" or "China") in 2015, with its market share reaching 11.5% in terms of hospital purchases. Moreover, the Group ranked as the third largest pharmaceutical company in the Chinese hospital market. This once again demonstrates Sihuan Pharmaceutical's leading position in China's CCV prescription drug market and hospital market.

(i) Sales of Key Products

(a) *CCV Products*

In 2015, sales of CCV drugs accounted for 94.7% of the Group's total revenue, representing an increase of 6.5% year-on-year.

Sales of several core products, Kelinao/Anjieli, Oudimei and Yuanzhijiu, recorded satisfactory growth in the first half of 2015. In the second half of the year, due to the impact of tighter controls of prescription and the reduction of the proportion of drug costs in the medical expenditure of the hospitals, the growth of those products slowed significantly. On the other hand, the sales growth of Oudimei and Yuanzhijiu remained satisfactory. The sales growth of Kelinao slightly decreased year-on-year while the sales of other CCV products varied. The sales of newly-launched products grew significantly. Sales of Scutellarin Glucose Injection and 12mg Cerebroprotein Hydrolysate injection increased by 96.2% and 101.1%, respectively; the sales of GM1 achieved a growth rate of 24.2% in spite of the supply shortage of active pharmaceutical ingredients ("APIs"). Several other products recorded lower or negative sales growth as a result of strong competition from similar products in the market, lower drug prices and delays in the tendering process.

Sales of key CCV products:

Product name	For the year ended 31 December		Change in sales year-on-year
	2014	2015	
	(RMB'000)	(RMB'000)	
Kelinao (Cinepazide maleate injection 80mg)	502,478	475,387	-5.4%
Anjieli (Cinepazide maleate injection 320mg)	137,522	132,014	-4.0%
Oudimei (Cerebroside - kinin injection)	611,513	729,815	19.3%
Yuanzhijiu (Troxeutin and cerebroproptein hydrolysate injection)	328,038	452,677	38.0%
Yeduoja (Compound trivitamin B for injection (II))	120,414	116,518	-3.2%
Danshen Chuanxiongqin (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	204,397	218,353	6.8%
Yimaining (Alprostadil lipid emulsion injection)	238,934	243,121	1.8%
GM1 (Monosialotetrate osylganglioside sodium injection)	148,471	184,454	24.2%
Qu' Ao (Cerebroprotein hydrolysate)	112,266	108,813	-3.1%
Chuanqing (Ligustrazine hydrochloride for injection)	85,464	81,985	-4.1%
Qingtong (Edaravone injection)	77,352	71,941	-7.0%
Guhong injection (Compound of aceglutamide and safflower extract)	177,688	137,419	-22.7%
Scutellarin Glucose injection	1,619	3,175	96.2%

(b) *Non-cardio-cerebral vascular products (“Non-CCV products”)*

In 2015, sales of Non-CCV products were also affected by a tighter control of health insurance budgets in hospitals. Newly-launched products achieved sound growth despite market coverage limited by the delay in the tendering process. Sales of Roxatidine and Huineng increased by 248.6% and 3,446.8% year-on-year, respectively. Metronidazole has begun sales in the market. Ren'ao (Oxcarbazepine) still maintained a sound growth momentum with its sales growing by 15.2% year-on-year; Zhuo' Ao and Bi' Ao did not record sales growth due to intense competition from similar products in the market and lower selling price.

Sales of key Non-CCV products:

Product name	For the year ended 31 December		Change in sales year-on-year
	2014	2015	
	(RMB'000)	(RMB'000)	
Ren' Ao (Oxcarbazepine)	19,747	22,754	15.2%
Bi' Ao (Ambroxol hydrochloride)	57,170	49,374	-13.6%
Zhuo' Ao (Ambroxol hydrochloride)	19,301	15,490	-19.7%
Clindamycin	34,671	35,599	2.7%
Roxatidine	2,606	9,086	248.6%
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	67	2,386	3,446.8%
Metronidazole	—	1,156	—

(ii) Sales and Marketing

In 2015, in the face of challenges such as stricter control over the health insurance budget and the lowering drug tendering prices, the Group implemented a sales and marketing strategy which was to prioritize the expansion of market shares while closely controlling product prices and distribution expenses. The sales and marketing team seized all opportunities to expand the market for established products, the team continued to deepen their market penetration; as for the newly launched products, the team captured all opportunities to enter new markets. Efforts were focused on deploying targeted strategies for each province. Such efforts not only resulted in a steady sales growth, but also tender wins at acceptable prices for the Group's key products and certain newly-launched products in provinces in which tendering took place during the year.

Academic promotion remained the main focus of the Group's sales and marketing. The Group actively participated in academic conferences and activities, and explored innovative approaches to conducting academic promotions. In 2015, the Group organized over 10,000 academic promotion activities, including 8 national academic symposiums, 52 provincial/municipal medium-sized academic conferences and 8,919 departmental seminars at hospitals. The Group also conducted 4 post-launch clinical research studies of its key products and yielded good results, reflecting the sound efficacy and safety of the products and recognition by medical experts and specialists.

To adapt to market changes, the Group reformed and adjusted its sales and marketing system and has achieved preliminary results in online marketing promotions. As at the end of 2015, the Group established online marketing platform Sihuan Pharm Online School in order to facilitate communication with physicians. Over 47,300 physicians became registered members and there were over 10 million visitors. The success of the online platform is a testament to the Group's professionalism in neurology. It will serve as a new channel for future market academic promotions.

Through the Group's efforts in sales and marketing, the sales of the Group's exclusive products either recorded good growth or steady performance in 2015. In addition, most of the Group's non-exclusive products were the top three best-sellers in the same category of products. These achievements reinforced the leading position of Sihuan Pharmaceutical in the prescription drug market.

(iii) **New Drugs Research and Development (“R&D”)**

The Group achieved encouraging progress in innovative drugs R&D in 2015. For Phase I clinical trials of innovative patented drug Pirotinib (派羅替尼) in the United States, the first three cohort groups have been completed and the fourth cohort group is in progress. Some patients currently taking the drug have demonstrated preliminary efficacy responses with no serious adverse effects related to the drug. The drug has also received approval of Phase I/II/III clinical trials from the China Food and Drug Administration (“CFDA”) and commenced Phase I clinical trial in China. The Group completed the final report on Phase I clinical trials of Category 1.1 innovative drug Imiglipitin Dihydrochloride (鹽酸依格列汀) in August 2015, application for Phase II and Phase III clinical trials were made and acceptance notice was received in September 2015. The on-site inspection has been completed in October 2015, and it is expected to receive approval for Phase II and Phase III clinical trials in the near term. In addition, Phase I clinical trials of Anaprazole Sodium (安納拉唑鈉), Tylerdipine Hydrochloride (泰樂地平) and Benapenem (百納培南), three other Category 1.1 innovative drugs are close to completion. In June and November 2015, the Group has successfully filed the Investigation New Drug (“IND”) applications to the CFDA for clinical trial approval of Sirotinib (賽羅替尼) and Fadanafil (複達那非), two Category 1.1 new drugs, respectively, and obtained the acceptance. Sirotinib is a new generation irreversible Pan-Her inhibitor and the second anti-cancer drug developed in-house. The drug can treat various types of cancer in advanced stages, including esophageal, gastric and lung carcinoma. Fadanafil is clinically intended to treat benign prostatic hyperplasia-related

lower urinary tract symptoms and erectile dysfunction (“ED”). In December 2015, the Group entered into a research collaboration agreement with Japan’s RaQualia Pharma Inc. in novel analgesic drugs and ion channel technology development.

Regarding the R&D of generic drugs, the Group was granted a total of 12 clinical trial and bio-equivalency approvals during the year, including clinic trial approvals of six Category 3.1 generic drugs. In order to actively respond to CFDA’s Notice No. 117 (in relation to self-review of clinical trials data) (國家食品藥品監督管理總局關於開展藥物臨床試驗數據自查核查工作的公告) issued in 2015, the Group’s generic drug R&D team conducted strict self-inspection of the drugs under development and withdrew four drugs under development, namely Losartan Potassium Capsules (氯沙坦鉀膠囊), Bisoprolol Fumarate Tablets (富馬酸比索洛爾片), Lansoprazole for Injection (注射用蘭索拉唑) and Clopidogrel Hydrogen Sulfate (硫酸氫氯比格雷). It made necessary amendments and conducted supplementary tests to other projects under development according to the new requirements of CFDA. The Group will re-evaluate the projects under development to identify high-value projects, to which more resources would be allocated.

(iv) **Production Quality Control**

The Group’s production costs level was pressured by continuously rising labor costs and raw material costs, as well as the commencement of the depreciation incurred by the Group’s upgrade of production facilities to meet the new Good Manufacturing Practice (“GMP”) standard. However, the yield of finished products of the Group’s main products has been significantly improved by the enhancement of production technology and management efficiency, giving good cost control for the production of the main products.

In 2015, the Group’s internal one-time qualification rate was maintained at 100% for all of its production facilities. To date, no quality and safety-related incident have occurred.

The production facilities of oral solid preparation of Beijing Sihuan Pharmaceutical Co., Ltd. (“**Beijing Sihuan**”) and Changchun Xiangtong Pharmaceutical Co., Ltd. and the production base of oral hormone preparations of Langfang Gaobo Jingband Pharmaceutical Co., Ltd., successfully passed the new GMP certification between June and November 2015. In February 2015, Beijing Sihuan was once again granted the certificate of National High and New Technology Enterprise.

(v) Project Investments and Mergers & Acquisitions (“M&A”)

The Group is actively involved in M&A, project investment and international cooperation. The Group is not only targeting domestic pharmaceutical enterprises and research institutions, but also under active negotiation with a number of international pharmaceutical enterprises and drug development companies.

(II) FUTURE PROSPECTS

(i) 2016 Outlook and Future Prospects

1. Industry Outlook

The government has been tightening control of the excessive growth of medical expenditure in the last two years. With the tightening in medical expense budget and lowering of provincial drug tender prices, challenges in the pharmaceutical industry persist and thus slower growth has been recorded. According to IMS, hospital drug purchases increased by 5.0% in 2015, about a 6.7 percentage point drop from 11.7% compared to 2014.

Fueled by China’s ageing population, rapid urbanization and universal medical insurance coverage, rigid demand in the domestic pharmaceutical market will continue to grow. Therefore, there is no doubt that the pharmaceutical industry will maintain a stable growth momentum.

On the other hand, the government’s implementation of higher industrial technical standards and closer monitoring has been driving polarization and consolidation in the pharmaceutical industry, inducing elimination of weaker competitors and M&As, which will lead to higher concentration in the industry. Pharmaceutical enterprises with integrated operational advantages are expected to benefit from such changes and flourish in the long run.

2. Growth Strategies

1) *Realizing full potential of existing product resources*

Our comprehensive and diversified product portfolio will ensure sustainable growth of Sihuan Pharmaceutical in the next few years. The Group's promising products such as Oudimei, Yuanzhijiu, Yeduoja, Danshen Chuanxiongqin injection and Yimaining continue to maintain their competitive edge to grow in the market; newly launched products such as Huineng (回能), Roxatidine (羅莎替丁), Breviscapine Sodium Chloride Injection (燈盞花注射劑), together with products such as Clindamycin (克林黴素) and Metronidazole (甲硝唑), etc, have immense market potential. Market potential of the Group's established products such as Kelinao, Chuanqing, Aogan, Qingtong are yet to be fully realized and steady growth is expected to be achieved through a shift of focus from mid-end markets to low-end markets such as medical institutions and third-party end-users. In addition, the Group's has previously little used product resources such as Nilestriol Tablets (尼爾雌醇片), Nicotinamide for Injection (注射用煙酰胺), Dopamine Hydrochloride Injection (注射用多巴胺), Verapamil Hydrochloride Injection (注射用維拉帕米) that have recently commenced production and have been launched into the market. In summary, the Group is equipped with products in various market development stages. By the deployment of targeted marketing strategies for different products, the Group will be advancing its market expansion comprehensively which will in turn lead to sustainable growth for the Group.

2) *Obtaining new product resources through multiple channels*

Sihuan Pharmaceutical currently has over 70 drugs under development. The Group will prioritize them based on their value, risks and development progress and allocate resources in accordance. Resources will be concentrated in certain key high-value projects to expedite commercialization. It is expected that various first-to-market generic drugs and innovative drugs will gradually be granted approval and launched to the market in the coming two to three years.

The Group will further enrich and enhance its product resources through cooperation with well-known domestic and international research institutions and pharmaceutical companies. In addition, in view of the upcoming wave of consolidation in the industry, Sihuan Pharmaceutical will place great importance on mergers and acquisitions in the next two years.

3) *Maintaining strong marketing capability*

The Group has been adjusting the sales and marketing system through reforms and innovations to adapt to market changes while maintaining a high efficiency. The Group has been actively exploring new marketing channels and fully utilizing the technological advantages of the Group's professional online platform, Sihuan Pharm Online School, to expand its professional coverage. Efforts in online promotion will be added to that in offline market expansion to provide professional services to physicians and patients. In addition, the Group will strengthen the construction of market channels, extending its network from the mid- to high-end hospital market to the low-end medical market such as low-end medical institutions and third-party end-users. Furthermore, it will enhance its capability in market channel management and control and improve its service quality to maintain the strong market development capacity of the sales and marketing system.

3. **Operation and Future Development Outlook in 2016**

In 2016, the industry will be facing immense challenges, resulting from the entering of crucial phases in the tendering process in each province, and the persistence of the trend of price reduction in 2015. In addition, the linkage of medical care, medical insurance and pharmaceuticals (三醫聯動) in the medical reform will create uncertainties. It is expected that the government will gradually introduce and implement reformative measures regarding the operating mechanism of medical institutions, including the introduction of the pricing for drugs and health insurance and the changes in payment methods.

Sihuan Pharmaceutical will be facing the challenges which such changes are imposing on other companies. 2016 will be the year in which the Group enhances its core capability with a view to reinforce its foundation and seek new opportunities. In 2016, the Group will strengthen its foundation in terms of operations, internal management and cost control, in order to advance through steady growth and pursue opportunities through reforms and innovation.

Looking forward, the management believes that Sihuan Pharmaceutical as a leading Chinese pharmaceutical company with a strong business foundation, economies of scale, a wide marketing network and strong capabilities in R&D and resources integration will be able to capture new development opportunities in the next round of industry restructuring. We will continue our dedication to innovation, to exploring new approaches to operations and to the pursuit of new growth drivers. The Group will be able to meet all the challenges, and will continue to grow and develop in the highly competitive market. The management has full confidence in the Group's prospects for 2016 and beyond.

(III) FINANCIAL REVIEW

Turnover

In 2015, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. The Group's business maintained stable performance with total revenue increased by approximately RMB83.0 million or 2.7% from RMB3,084.2 million in 2014 to RMB3,167.2 million in 2015.

During the Year, the Group's sales in CCV drugs increased steadily. Sales of CCV drugs for the Year amounted to approximately RMB3,000.7 million, representing an increase of approximately RMB183.8 million when compared with 2014, which accounted for approximately 94.7% of the Group's total revenue.

Revenue derived from non-CCV drugs decreased by approximately 37.7% from RMB267.3 million in 2014 to RMB166.5 million in 2015, accounting for approximately 5.3% of the Group's total revenue. The decrease was mainly due to lower sales of anti-infective drugs and the Group no longer acts as agent for sales of amino acid injection.

Cost of sales

The Group's cost of sales for the Year amounted to RMB939.2 million, accounting for 29.7% of the total revenue.

Gross profit

Gross profit of RMB2,228.1 million was recorded for the Year, representing an increase of approximately RMB116.6 million when compared with RMB2,111.4 million in 2014. Overall gross profit margin increased from 68.5% in 2014 to 70.4% in 2015, which was due to change in product mix.

Other net gains (including gain on derecognition of a subsidiary)

Other net gains increased from a gain of RMB451.8 million in 2014 to RMB1,051.0 million in 2015. This was mainly due to the investment gain generated from the disposal of equity interest in Jilin Sichang and higher government grants received.

Distribution costs

Distribution costs increased by RMB4.9 million to RMB155.1 million in 2015 as compared to 2014.

Administrative expenses

Administrative expenses decreased by 5.1% from RMB480.1 million in 2014 to RMB455.9 million in 2015. The decrease was primarily due to a decrease in payment for performance bonus to the Directors, but partially offsetting by rise of professional expenses and costs relating to the commencement of production in new production facilities.

Net finance income

Net finance income increased from RMB99.0 million in 2014 to RMB114.4 million in 2015. The increase was mainly due to increase in interest income and coupled with the fall in exchange loss and interest expenses.

Profit before income tax

Due to the aforesaid, the Group's profit before income tax increased by 37.1% from RMB2,073.4 million in 2014 to RMB2,841.7 million in 2015.

Income tax expenses

Our income tax expenses increased by 105.1% from RMB388.5 million in 2014 to RMB797.0 million in 2015. For the year ended 31 December 2015, our subsidiary has received a notice from the Meihokou SAT which considered that certain expenses incurred in the period between 2011 and 2014 which were claimed as tax deductible does not fully comply with the "spirit" of the Tax Incentive Policies. Accordingly, the subsidiary paid further Income Tax in the total sum of RMB326.8 million.

Profit for the Year

Due to the aforesaid, the Group's net profit increased by 20.9% from RMB1,684.9 million in 2014 to RMB2,044.8 million in 2015.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by 23.4% from RMB1,671.3 million in 2014 to RMB2,062.4 million in 2015.

Non-controlling interests

Non-controlling interests decreased by RMB31.2 million from RMB13.6 million in 2014 to a deficit of RMB17.6 million in 2015.

Liquidity and financial resources

As at 31 December 2015, the Group's cash and cash equivalents amounted to RMB2,282.4 million (31 December 2014: RMB1,317.9 million); and available-for-sale financial assets amounted to RMB1,959.3 million (31 December 2014: RMB1,617.6 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash for short-term investments in order to obtain better returns. Therefore, members of the Group entered into agreements with certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC to invest extra cash. According to such agreements, during the Year, the total investment principals of members of the Group amounted to RMB1,934.0 million. The investments made by the Group according to these agreements were categorized as short-term investments, which mainly consisted of financial planning products purchased from certain state-owned banks and reputable international financial institutions outside of PRC. For the said financial planning products, the issuing banks of such financial planning products can invest the Group's funds into financial instruments such as treasury bonds, discounted bank acceptances, commercial acceptance bills and bank deposits. The investment principals of RMB1,934.0 million plus interests of approximately RMB25.3 million amounted to approximately RMB1,959.3 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2015. As at the date of this announcement, sold/repaid investment principal amounted to RMB1,255.0 million.

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

The Group has sufficient cash as at 31 December 2015. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December 2015	As at 31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Audited</i>	<i>Audited</i>
Cash and cash equivalents	2,282,370	1,317,945
Less: Borrowings	<u>(8,280)</u>	<u>(3,500)</u>
	<u>2,274,090</u>	<u>1,314,445</u>

Trade and other receivables

The Group's trade receivables consist of credit sales of our products to be paid by our distributors. Other receivables consist of prepaid value added tax, prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables were RMB972.3 million as at 31 December 2015, representing a decrease of approximately RMB268.4 million when compared with trade and other receivables of RMB1,240.7 million as at 31 December 2014, which was mainly due to payment received for equity interest disposal from Shandong Buchang Pharmaceutical Co., Ltd. (“**Shandong Buchang**”) in the Year.

Inventory

Our inventory as at 31 December 2015 amounted to RMB233.0 million (inventory as at 31 December 2014: RMB177.2 million). Inventory turnover days of finished products were 43.0 days (2014: 26.0 days). Such increase was mainly due to increase in production stocks at the end of the year. We had no inventory impairments during 2015.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 31 December 2015, the net book value of property, plant and equipment amounted to RMB2,051.4 million, representing an increase of RMB347.2 million, or approximately 20.4%, as compared with the previous year. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Intangible assets

The Group's intangible assets mainly consist of goodwill, customer relationships, deferred development costs and product development in progress. The Group's goodwill arose from the acquisition of subsidiaries. The deferred development costs and product development in progress mainly represent the acquisition of certain pharmaceutical R&D projects from external research institutions and its self-developed R&D projects. As at 31 December 2015, net intangible assets amounted to RMB2,817.1 million (31 December 2014: RMB2,815.7 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, accrued expenses and other payables. As at 31 December 2015, trade and other payables amounted to RMB664.3 million, representing a decrease of approximately RMB441.1 million as compared with 31 December 2014. The decrease was due to recognition of income derived from equity disposal of Jilin Sichang during the Year which was previously included in deferred revenue and decrease in performance bonus payable to Directors.

Contingent liabilities and guarantees

As at 31 December 2015, the Group had no material contingent liabilities or guarantees (31 December 2014: nil).

Off-balance sheet commitments and arrangements

As at 31 December 2015, apart from the capital and operating lease commitment disclosed, the Group has not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payment liabilities of any third parties. The Group did not have any variable interests in any unconsolidated entities that provide financing or liquidity, create market risk or offer credit support to us or engage in the provision of leasing, hedging or R&D services to the Group.

Capital commitment

As at 31 December 2015, the Group had a total capital commitment of RMB663.4 million, mainly set aside for the acquisition of property, plant and equipment and intangible assets, and investment in associated companies.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss for us. We have no significant concentrations of credit risk. Credit risk arises mainly from cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The carrying amounts of cash equivalents, trade and other receivables and available-for-sale financial assets represent our maximum exposure to credit risk in relation to our financial assets.

With respect to cash and cash equivalents, we manage the credit risk of cash in the PRC by placing our bank deposits in large PRC state-owned banks without significant credit risks. We manage the credit risk of cash outside the PRC by placing our bank deposits in financial institutions that have high credit quality.

With respect to trade and other receivables, we have policies in place to ensure certain cash advances are paid by customers upon entering into the agreement related to sales orders. We assess the credit quality of the counterparties by taking into account their financial positions, credit histories and other factors. We also undertake certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. We regularly perform ageing analysis, assess credit risks and estimate the recoverability of groups of trade receivables bearing similar credit risks based on historical data and cash collection history.

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

Foreign exchange risk

RMB is the functional currency of the Group. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency. Nevertheless, dividend payment of foreign currency converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2015, the Group had no outstanding borrowings denominated in a foreign currency.

For the year ended 31 December 2015, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury Policies

The Group finances its ordinary operations with internally generated resources.

Capital expenditure

Our capital expenditure primarily consists of the purchase of property, plant and equipment, land use rights and intangible assets. In 2015, our capital expenditures amounted to RMB594.9 million, of which RMB410.0 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets increased by RMB107.1 million, and the remaining RMB77.8 million was spent on land use rights.

Material acquisition and disposal

On 5 January 2015, the Group and Shandong Buchang entered into a supplemental agreement relating to the second phase of disposal of 31.0% equity interest in Jilin Sichang, the disposal was completed in January 2015 after finalisation of required legal procedures.

In January 2015, Beijing Sihuan entered into a Share Transfer Agreement (the “**Agreement**”) with Beijing Ruiye Economic and Technology Development Co., Ltd. and Xu Weidong to acquire 9.88% equity interest in Beijing Ruiye Drugs Manufacture Co. Ltd. (“**Beijing Ruiye**”) for a consideration of RMB15.0 million (the “**Share Acquisition**”). Pursuant to the terms of the Agreement, Beijing Sihuan will inject capital into Beijing Ruiye, which includes the old production plant of Beijing Sihuan located in Zhangjiawan Town, Tongzhou District, Beijing, including land, factory buildings and other assets, and cash in the amount of RMB55.0 million (the “**Capital Injection**”). The Group will be interested as to 39.0% of the shares of Beijing Ruiye after completion of the Share Acquisition and Capital Injection, and will enjoy priority in the marketing and distribution of all products manufactured by Beijing Ruiye.

In June 2015, the Group together with Beijing Qi Neng Ming Da Energy Conservation and Environmental Protection Technology Co., Ltd. and Huang Wanshui entered into a share transfer agreement with Huang Guoming for the acquisition of 70.7% equity interest in Beijing Boren Hospital at a consideration of RMB90.7 million.

On 30 August 2015, Tonghua Jida Pharmaceutical Co., Ltd. entered into a capital increase agreement with Beijing Sihuan, Dr. Che Fengsheng, and other investors, to inject in total RMB50.0 million into Yilukang Health Management (Beijing) Co., Ltd.* (醫路康健康管理(北京)有限公司) (“**Yilukang**”). Upon the completion of the injection, the Company will hold 51.0% equity interest in Yilukang.

Pledge of assets

As at 31 December 2015, none of our assets was pledged.

Human Resources and Remuneration of Employees

Human resources are indispensable assets to the success of the Group in a competitive environment. The Group provides competitive remuneration package to all employees. The Group reviews its own human resources and remuneration policy regularly, to encourage employee to work towards enhancing the value of the Company and promoting the long-term growth of the Company.

As at 31 December 2015, the Group had 2,750 employees. For the year ended 31 December 2015, total salary and related costs of the Group was approximately RMB248.8 million (2014: RMB299.3 million). This was mainly due to a substantial decrease in the Directors’ performance bonus.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on the 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) in accordance with the requirements of Rule 3.21 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to assist the Board to provide an independent view on the effectiveness of the financial reporting procedures, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. As at the date of this announcement, the Audit Committee consists of one non-executive Director (Dr. Zhang Jionglong) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy.

The Audit Committee had reviewed the Group’s financial reporting matters and the internal control system in relation to finance and accounting and submitted improvement proposals to the Board.

The annual results of the Group for the year ended 31 December 2015 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Company established a nomination committee (the “**Nomination Committee**”) with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are, among others, to review the structure, size and composition of the Board, to assess the independence of the independent non-executive Directors and to make recommendations to the Board on matters relating to the appointment of Directors. As at the date of this announcement, the Nomination Committee consists of one executive Director (Dr. Guo Weicheng) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Tsang Wah Kwong.

REMUNERATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the “**Annual General Meeting**”) will be held on Tuesday, 28 June 2016. The notice of the Annual General Meeting will be published on the Company’s website and the Stock Exchange’s website and sent to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Friday, 24 June 2016 to Tuesday, 28 June 2016 (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 Thursday, 23 June 2016.

DIVIDEND

The Board recommended the declaration and payment of a final cash dividend of RMB4.5 cents per share for the year ended 31 December 2015 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming Annual General Meeting. Together with an interim cash dividend of RMB1.4 cents per share, the total cash dividend for the year ended 31 December 2015 will be RMB5.9 cents per share.

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

The register of members of the Company will be closed from Tuesday, 5 July 2016 to Thursday, 7 July 2016 (both dates inclusive). In order to qualify for the final 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 Monday, 4 July 2016. The final dividend, subject to the approval of the Shareholders at the Annual General Meeting, will be payable on around Wednesday, 13 July 2016 to the Shareholders whose names appear on the register of members of the Company on Thursday, 7 July 2016.

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 2015 have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited ("**Crowe Horwath**"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Crowe Horwath 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 Crowe Horwath on the preliminary announcement.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The basis of the auditor's qualified opinion is extracted as follows:

“Basis of qualified opinion on the Group's financial performance and cash flows

Based on the findings of an independent investigation conducted by the Audit Committee in response to an external enquiry as to how the Group conducted its sales and marketing activities and on other financial reporting matters, the Group's consolidated financial statements for the year ended 31 December 2014, together with certain adjustments retrospectively made to Group's consolidated financial statements for the previous years prior to 2014, had been prepared by the directors of the Company to reflect the following:

- (a) consolidation of certain marketing research agents (“**Consolidated MRAs**”), which were considered as third parties in previous years before 2014 but based on the substance, they were retrospectively considered to be controlled by the Group;
- (b) transactions and balances related to the Consolidated MRAs that were eliminated on the Group's consolidated financial statements;
- (c) offsetting of the Group's certain distribution costs against its revenue because these marketing and promotion expenses paid by the Group to its marketing research agents (including the Consolidated MRAs) were eventually reimbursed, directly or indirectly, to the Group's distributors and they appeared to be tantamount to sales discounts to distributors; and
- (d) recognition of certain off-book transactions that were conducted through certain personal bank accounts opened in the names of certain employees or former employees of the Group.

On 2 August 2015, the predecessor auditor issued a report on the consolidated financial statements of the Group for the year ended 31 December 2014 which contained a disclaimer of opinion for their inability to verify, for the reporting periods in 2014 and the previous years prior to 2014, the appropriateness and completeness of the accounting treatments for the above matters and the related tax impacts for (b) and (d) above. These Consolidated MRAs were dissolved and deregistered, and these personal bank accounts were closed.

We are unable to obtain sufficient information to determine, as a result of the above matters, whether or not the Group's net assets as at 1 January 2015 were free from material misstatement. Any adjustments found to be necessary on the opening balances of the Group's net assets as at 1 January 2015 might have material consequential effects on the Group's financial performance and cash flows for the current year ended 31 December 2015.

Qualified Opinion on the Group's financial performance and cash flows

In our opinion, except for the possible effects of the matters described in the "Basis of Qualified Opinion on the Group's financial performance and cash flows" paragraph, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows give a true and fair view of the Group's financial performance and cash flows for the year ended 31 December 2015 in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Opinion on the Group's financial position

In our opinion, the consolidated statement of financial position gives a true and fair view of the financial position of the Group at 31 December 2015 in accordance with the International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance."

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 2015 will be dispatched to Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to express its sincere appreciation to our Shareholders, customers and suppliers for their continued support of the Group. The Board also wishes to thank the Group's management and staff for achieving remarkable progress in the Group's business and their dedication and commitment for improving the Group's management.

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

Hong Kong, 29 March 2016

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

* *For identification purpose only*