Sihuan Pharmaceutical Holdings Group Ltd.
四環醫藥控股集團有限公司
(incorporated in Bermuda with limited liability)
(Stock Code: 0460)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the "Board") of Sihuan Pharmaceutical Holdings Group Ltd. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011 ("the Period") together with the comparative figures for 2010. These interim results have been reviewed by the external auditors of the Company, Messrs. PricewaterhouseCoopers, in accordance with the International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the "Audit Committee").

INTERIM RESULTS

FINANCIAL HIGHLIGHTS -

SOLID GROWTH TROUGH A DIVERSIFIED PRODUCT PORTFOLIO

	Six Months ended 30 June		
	2011	**2010**	**Change**
	RMB'000	*RMB'000*	*%*
Key Income Statement Items			
Revenue	**990,568**	473,437	109.2%
Gross profit	**774,730**	346,363	123.7%
Operating profit	**446,326**	287,023	55.5%
Profit attributable to equity holders of the Company	**380,685**	254,849	49.4%
Key Financial Ratios			
Gross profit margin	**78.2%**	73.2%	
Net profit margin	**38.4%**	53.8%	
Earnings per share - Basic (RMB cents)	**7.339**	6.796	
Receivable Turnover (days)	**15**	1	
Inventory Turnover (days)	**24**	65	
Interim dividend per share (RMB cents)	**1.9**	—	
Special dividend per share (RMB cents)	**7.8**	—	

- Revenue of the Group increased by 109.2% to RMB990.6 million (1H 2010: RMB473.4 million).

- Gross profit margin improved further to 78.2%. (1H 2010: 73.2%)

- Profit attributable to equity owners of the Company increased by 49.4% to RMB380.7 million for the Period.

- Basic earnings per share was approximately RMB7.339 cents for the Period as compared to approximately RMB6.796 cents for the same period last year.

- An interim dividend of RMB1.9 cents per share was declared by the Board.

- A special dividend of RMB7.8 cents per share was recommended by the Board and is subject to the approval of the shareholders at the special general meeting of the Company to be held on 19 September 2011.

CONSOLIDATED BALANCE SHEET

	Note	As of 30 June 2011	As of 31 December 2010
		RMB'000	*RMB'000*
		Unaudited	Audited
Assets			
Non-current assets			
Property, plant and equipment	3	339,164	253,153
Intangible assets	3	2,731,873	153,469
Land use rights	4	37,407	17,714
Held-to-maturity financial assets		36,243	36,252
Deferred income tax assets		97,689	41,020
Other non-current assets		225,000	236,199
		3,467,376	737,807
Current assets			
Inventories		77,730	53,346
Trade and other receivables	5	465,667	259,920
Cash and cash equivalents		4,966,965	5,851,379
		5,510,362	6,164,645
Total assets		8,977,738	6,902,452
Equity and liabilities			
Equity attributable to equity owners of the Company			
Share capital		44,526	44,526
Share premium		5,608,947	5,608,947
Other reserves		110,876	111,876
Retained earnings		1,273,267	891,582
		7,037,616	6,656,931
Non-controlling interests		17,604	2,598
Total equity		7,055,220	6,659,529

	Note	As of 30 June 2011	As of 31 December 2010
		RMB'000	*RMB'000*
		Unaudited	Audited
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		107,721	9,526
Current liabilities			
Trade and other payables	6	1,670,558	138,907
Current income tax liabilities		144,239	94,490
		1,814,797	233,397
Total liabilities		1,922,518	242,923
Total equity and liabilities		8,977,738	6,902,452
Net current assets		3,695,565	5,931,248
Total assets less current liabilities		7,162,941	6,669,055

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June **2011** *RMB'000* Unaudited	**2010** *RMB'000* Audited
Revenue	7	990,568	473,437
Cost of sales		(215,838)	(127,074)
Gross profit		774,730	346,363
Other gains - net	7	44,141	19,444
Distribution costs		(294,371)	(26,364)
Administrative expenses		(78,174)	(52,420)
Operating profit		446,326	287,023
Finance income		47,082	4,157
Finance costs		(1,194)	(1,085)
Finance income - net		45,888	3,072
Profit before income tax		492,214	290,095
Income tax expense	8	(117,389)	(42,683)
Profit and total comprehensive income for the Period		374,825	247,412
Attributable to:			
Equity holders of the Company		380,685	254,849
Non-controlling interests		(5,860)	(7,437)
		374,825	247,412
Earnings per share attributable to equity holders of the Company			
- Basic and diluted earnings per share (RMB cents)	9	7.339	6.796
Dividends	10	501,977	—

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity owners of the Company					
	Share Capital	**Share premium**	**Other reserves**	**Retained earnings**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unaudited						
Balance as at 1 January 2011	44,526	5,608,947	111,876	891,582	2,598	6,659,529
Comprehensive income						
Profit/(loss) for the period	—	—	—	380,685	(5,860)	374,825
Transactions with owners						
Acquisition of a subsidiary	—	—	—	—	20,866	20,866
Disposal of a subsidiary	—	—	(1,000)	1,000	—	—
Balance as at 30 June 2011	44,526	5,608,947	110,876	1,273,267	17,604	7,055,220
Audited						
Balance as at 1 January 2010	69,262	182,909	109,585	545,747	16,684	924,187
Comprehensive income						
Profit/(loss) for the period	—	—	—	254,849	(7,437)	247,412
Transactions with owners						
Acquisition of a subsidiary	—	—	—	—	1,071	1,071
Balance as at 30 June 2010	69,262	182,909	109,585	800,596	10,318	1,172,670

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
	Unaudited	Audited
Net cash generated from operating activities	222,605	183,984
Net cash used in investing activities	(1,089,940)	(2,526)
Net cash used in financing activities	(17,079)	(173,939)
Net (decrease) / increase in cash and cash equivalents	(884,414)	7,519
Cash and cash equivalents at beginning of the period	5,851,379	612,859
Cash and cash equivalents at end of the period	4,966,965	620,378

Notes to the Financial Statements for the six months ended 30 June 2011

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRs.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standard and amendment to standard is mandatory for the first time for the financial year beginning 1 January 2011.

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

2. SEGMENT INFORMATION

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

The Board considers the business from a product to product perspective. The Group is engaged in only one business segment, the manufacturing and sale of pharmaceutical products.

3. PROPERTY, PLANT AND EQUITMENTS AND INTANGIBLE ASSETS

Six months ended 30 June 2010	Property, plant and equipment *RMB'000*	Intangible assets *RMB'000*
Opening net book amount as at 1 January 2010	162,036	137,462
Acquisition of subsidiary	10	1,943
Additions	18,580	20,122
Disposals	(50)	—
Depreciation and amortisation	(7,449)	(8,709)
Impairment	—	—
Closing net book amount as at 30 June 2010	173,127	150,818
Six months ended 30 June 2011		
Opening net book amount as at 1 January 2011	253,153	153,469
Acquisition of subsidiaries (Note (11))	73,236	2,523,533
Additions	26,236	80,417
Disposals of a subsidiary	(203)	(1,860)
Depreciation and amortisation	(13,258)	(21,743)
Impairment	—	(1,943)
Closing net book amount as at 30 June 2011	339,164	2,731,873

4. LAND USE RIGHTS

	RMB'000
At 1 January 2010	
Cost	22,320
Accumulated amortisation	(3,477)
Net book amount	18,843
Six months ended 30 June 2010	
Opening net book amount	18,843
Amortisation charge	(564)
Closing net book amount	18,279
At 30 June 2010	
Cost	22,320
Accumulated amortisation	(4,041)
Net book amount	18,279
Six months ended 30 June 2011	
Opening net book amount	17,714
Acquisition of subsidiaries	12,803
Additions	7,798
Amortisation charge	(908)
Closing net book amount	37,407
At 30 June 2011	
Cost	42,921
Accumulated amortisation	(5,514)
Net book amount	37,407

5. TRADE AND OTHER RECEIVABLES

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Trade receivables - third parties	187,369	27,763
Less: provision for impairment of trade receivables	—	—
Trade receivables - net	187,369	27,763
Prepayments to suppliers	126,989	105,880
Deposits and other receivables	151,309	126,277
	465,667	259,920

Trade and other receivables, other than trade receivables, do not contain impaired assets, have no fixed repayment term and bear no interest. At 30 June 2011 and 31 December 2010, the ageing analysis of the trade receivables were as follows:

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Within 3 months	186,856	27,438
3 to 6 months	—	122
6 to 12 months	20	182
More than 12 months	493	21
	187,369	27,763

6. TRADE AND OTHER PAYABLES

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Trade payables	44,136	31,261
Advances from customers	29,866	36,793
Value added tax payables	2,410	2,310
Accrued performance bonus to directors	8,929	24,350
Payables of share issue cost	—	9,021
Other payables	75,217	35,172
Consideration payable for acquisition of subsidiaries	1,510,000	—
	1,670,558	138,907

Amount due to a director and a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

The fair values of trade and other payables approximate their carrying amounts and the Group's trade and other payables are denominated in RMB.

The ageing analysis of the trade payables is as follows:

	As at	
	30 June 2011	**31 December 2010**
	RMB'000	*RMB'000*
Within 6 months	37,617	29,315
6 to 12 months	76	154
More than 12 months	6,443	1,792
	44,136	31,261

7. REVENUE AND OTHER GAINS - NET

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Revenue:		
Sales of pharmaceutical products	990,568	473,437
Other gains - net:		
Processing fee income	725	945
Government grants	48,648	18,226
Impairment of intangible assets	(1,943)	—
Loss on disposal of a subsidiary	(1,829)	—
Others	(1,460)	273
	44,141	19,444

8. INCOME TAX EXPENSES

(a) Bermuda profits tax

The Group has not been subject to any taxation in these jurisdictions during the Period and corresponding period in 2010.

(b) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during the Period and corresponding period in 2010.

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

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

With effect from 1 January 2008, the PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("new CIT Law"), as approved by the National People's Congress on 16 March 2007. Hainan Sihuan Pharmaceutical Co., Ltd. ("Hainan Sihuan") and Beijing Sihuan Pharmaceutical Co., Ltd. ("Beijing Sihuan") were qualified as high-tech enterprises and are entitled to a further reduction in tax rate. Accordingly, Hainan Sihuan's and Beijing Sihuan's corporate income tax rates for the Period were provided at the rate of 15%.

(d) PRC withholding tax on retained profits

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

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Current tax	75,863	44,710
Deferred tax	41,526	(2,027)
Income tax expense	117,389	42,683

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Period. The ordinary shares of 3,280,000,000 issued on 8 October 2010 related to the capitalization issue were deemed to have been issued at 1 January 2010 and accordingly, the comparative figures have been restated.

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company (RMB'000)	380,685	254,849
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	5,187,000	3,750,000
Basic earnings per share (RMB cents per share)	7.339	6.796

(b) Diluted

There is no dilution to earnings per share during the Period because there was no potential dilutive ordinary shares issuance existing during the Period. The diluted earnings per share equal the basic earnings per share.

10. DIVIDENDS

No final dividend was proposed in respect of the year ended 31 December 2010.

An interim dividend of RMB1.9 cents per share (2010: nil) and a special dividend of RMB7.8 cents per share (2010: nil) was proposed by the board on 30 August 2011. It is payable on or around 11 October 2011 to shareholders who are on the register on 27 September 2011. The special dividend proposal is subject to approval by the shareholders in special general meeting to be held on 19 September 2011. The interim dividend and special dividend, which amounted to RMB98,325,000 and RMB403,652,000 respectively, has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2011.

11. BUSINESS COMBINATION

a) Acquisition of Dupromise Holdings Limited ("Dupromise")

In 1 January 2011, the Group acquired 100% equity interest of Dupromise for a total cash consideration of RMB 2,400,000,000 contingent upon certain condition.

The goodwill of RMB2,145,142,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies and savings through combining sales channel and obtaining economies of scale.

The following table summarises the consideration paid for Dupromise, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Provisional Fair Value
	RMB'000
Identifiable assets and liabilities:	
Cash and cash equivalents	27,327
Trade and other receivables	30,392
Inventories	5,245
Property, plant and equipment	29,317
Land use rights	3,146
Intangible assets	212,555
Total assets	307,982
Trade and other payables	1,587
Current income tax liabilities	(1,003)
Deferred income tax liabilities	52,540
Total liabilities	53,124
Identifiable net assets	254,858
Goodwill and cash flows:	
Share of identifiable net assets acquired	100%
Identifiable net assets acquired	254,858
Goodwill	2,145,142
Total consideration	2,400,000

b) **Acquisition of Changchun Xiangtong Pharmacy Co., Ltd. ("Changchun Xiangtong")**

In 31 January 2011, the Group acquired 80% equity interest of Changchun Xiangtong, at a total cash consideration of RMB140,600,000.

The goodwill of RMB57,137,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies and savings through combining sales channel and obtaining economies of scale.

The following table summarises the consideration paid for Changchun Xiangtong, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Provisional Fair Value
	RMB'000
Identifiable assets and liabilities:	
Cash and cash equivalents	12,912
Trade and other receivables	17,263
Inventories	2,475
Property, plant and equipment	15,289
Land use rights	6,184
Intangible assets	77,830
Total assets	131,953
Trade and other payables	5,563
Current income tax liabilities	1,902
Deferred income tax liabilities	20,158
Total liabilities	27,623
Identifiable net assets	104,330
Goodwill and cash flows:	
Share of identifiable net assets acquired	80%
Identifiable net assets acquired	83,463
Goodwill	57,137
Total consideration	140,600

c) **Acquisition of Benxi Hengkang Pharmaceutical Co., Ltd. ("Benxi Hengkang" , formerly known as Benxi Leilong Pharmaceutical Co. Ltd.)**

In 31 March 2011, the Group acquired 100% equity interest in Benxi Hengkang for a total cash consideration of RMB 36,199,172.

The goodwill of RMB30,870,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies and savings through combining sales channel and obtaining economies of scale.

The following table summarises the consideration paid for Benxi Hengkang, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Provisional Fair Value
	RMB'000
Identifiable assets and liabilities:	
Cash and cash equivalents	65
Trade and other receivables	59,964
Inventories	3,253
Property, plant and equipment	28,630
Land use rights	3,473
Intangible assets	—
Total assets	95,385
Short term loans	17,079
Trade and other payables	72,977
Deferred income tax liabilities	—
Total liabilities	90,056
Identifiable net assets	5,329
Goodwill and cash flows:	
Share of identifiable net assets acquired	100%
Identifiable net assets acquired	5,329
Goodwill	30,870
Total consideration	36,199

12. SUBSEQUENT EVENT

(a) Acquisition of Smart Baskets Investment Limited ("Smart Baskets")

On 22 June 2011, Sun Moral International (HK) Limited ("Sun Moral"), a subsidiary of the Company, and Congio Enterprises Limited ("Congio"), an independent third party, entered into a share purchase agreement pursuant to which Sun Moral has conditionally agreed to purchase, and Congio has conditionally agreed to sell, the entire equity interest in Smart Baskets. Smart Baskets holds 100% equity interests in Vinise Pharmaceutical Limited ("Vinise Pharmaceutical") and Hainan Litzman Pharmaceutical Limited ("Hainan Litzman"). The consideration for the acquisition would not exceed RMB775,000,000 and is payable in installments and in accordance with the terms and conditions of the share purchase agreement. The prepaid consideration of the acquisition was RMB225,000,000 as at 30 June 2011. The directors of the Company are in the process of accessing the future financial impact.

(b) **Disposal of 50% equity interest in Vinise Pharmaceutical**

The company has entered into an agreement dated 18 July 2011 with one of the reputable Traditional Chinese Medicine ("TCM") manufacturers in China, Shandong Buchang Pharmaceutical Co., Ltd. ("Shandong Buchang"). Pursuant to the agreement, Shandong Buchang will purchase 50% equity interests in Vinise Pharmaceutical for a cash consideration of RMB637,500,000. This transaction has not been completed up to the approval date of these interim financial statements.

(c) **Repurchase and cancel of shares**

In July 2011, the Company repurchased its ordinary shares totaling 12,476,000 shares at a range of HKD3.22 to HKD3.45 per share, resulted in an aggregate consideration of HKD42,139,000 (approximately RMB34,849,000). The difference between the par value of the ordinary shares and the aforesaid consideration, totalling RMB34,746,000, is deducted against the share premium account of the Company. The repurchased shares were cancelled on 29 July 2011 accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2011, the Company delivered robust growth despite the policies promulgated by the National Development and Reform Commission to control the drug price this year which had affected China's pharmaceutical sector.

The Company recorded impressive revenue growth to reach RMB990.6 million during the Period, an increase of 109.2% over the same period last year. The increase in sales was largely attributable to a more diverse mix of new and existing products. Gross profit margin rose to 78.2% from 73.2% while profit attributable to the Company's equity owners jumped 49.4% to RMB380.7 million.

Capitalizing on the Company's strong capabilities in integrating new acquisitions and developing new markets, sales of its newly acquired products recorded significant growth, exceeding one-third of the Company's total sales. The newly acquired products successfully optimised the Company's product mix and stablised the Company's basis of operation. In addition, the Company further expanded its footprint in the TCM market through close cooperation with Shandong Buchang, a leading player in China's TCM sector.

(i) **Cardio-cerebral vascular products (the "CCV products")**

During the Period, sales of CCV products were the key driver of the Company's rapid revenue growth. CCV sales reached RMB874.4 million, a 122.5% increase over the last corresponding period, and accounting for 88.3% of the Company's total revenue.

Due to a more optimized product mix, the Company achieved a more balanced revenue contribution from existing products (like Kelinao and Anjieli) and newly acquired products, without relying on any one single product's sales contribution. Sales of our newly acquired products, namely Oudimei, Yuanzhijiu and Yimaining, reached RMB344.1 million, RMB27.0 million and RMB23.5 million, respectively. In addition to Kelinao and Anjieli, Oudimei has now become another flagship product of the Company and a key revenue contributor. The product has been included in 22 provincial medicine catalogues and is expected to record further sales growth.

Kelinao, one of our mature CCV products, recorded sales of RMB223.7 million, representing an increase of 3.6%. Anjieli recorded sales growth of 26.8% to reach RMB72.3 million. Kelinao and Anjieli (both contain cinepazide maleate (馬來酸桂哌齊特)) achieved sales of RMB296.0 million in total, an increase of 8.5% compared to the same period last year. Sales of Ganglioside ("GMI") and Qingtong climbed further to RMB58.9million and RMB16.9 million, representing 88.4% and 32.4% growth respectively.

The outstanding performance of our CCV products is a testament to the Company's marketing and distribution capabilities in developing new products with promising potential. With this line-up of diverse CCV products, the Company has further cemented its leading position in China's CCV prescription drug market. According to IMS, the market share of the Company's CCV drugs (excluding TCM) was 9.0% as at the end of June 2011.

Sales of the Top 5 CCV Products

(RMB'000)	**For the six months period ended 30 June 2011**	**2010**	**Change**
Oudimei	344,103.1	N/A*	N/A*
Kelinao	223,746.7	215,899.1	3.6%
Anjieli	72,313.1	57,017.8	26.8%
GMI	58,922.8	31,276.6	88.4%
Chuanqing	38,581.9	41,809.4	(7.7%)

* *newly acquired product in 2011*

(ii) **Non-cardio-cerebral vascular products ("non-CCV products")**

Despite the government's restrictions on the clinical use of certain anti-infective drugs, the Company's anti-infective products recorded impressive growth of 70.6% to RMB52.3 million during the Period. The increase was mainly attributable to the rapid growth of Sulbenicillin Sodium, which generated

RMB22.8 million in sales following its listing in the National Medicine Catalogue. Anjiejian, a key anti-infective drug product, recorded steady growth of 27.0% to RMB14.6 million during the Period. Sales of other non-CCV products such as Zhuo'Ao and Luoanming (Amino Acid Injection) posted 108.1% and 71.3% growth respectively.

(iii) **Foray into China's TCM Market**

On 22 June 2011, Sun Moral, a wholly-owned subsidiary of the Company, and Congio entered into a share purchase agreement pursuant to which Sun Moral has conditionally agreed to purchase and Congio has conditionally agreed to sell, the entire equity interests in Smart Baskets which holds 100% equity interests in Vinise Pharmaceutical. The acquisition was completed on 27 June 2011 and added four key CCV products with strong market potential to the Group's product portfolio, including Breviscapine and Sodium Chloride injections, Scutellarin Glucose injections, Salviae Miltiorrhizae and Lingustrazine injections, and Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose injections.

Subsequently, the Company entered into an arrangement with Shandong Buchang through an agreement to conditionally sell 50% equity interests in Vinise Pharmaceutical to Shandong Buchang on 19 July 2011. Incidental to the agreement for sale, the Company and Shangdong Buchang will jointly develop the existing four major products of Vinise Pharmaceutical as well as more TCM products for the treatment of CCV diseases. There will be significant synergistic benefits of this cooperation in areas including marketing, research and development and manufacturing for the Company and Shangdong Buchang. The cooperation with Shandong Buchang to develop TCM market will expedite the Company's market expansion in the TCM sector and further consolidate the Company's leading position in the overall CCV market.

(iv) **Marketing efforts**

The Company further developed its sales team and distribution network to support the expansion of its product mix. In the first half of 2011, the Company added over 60 staff to its marketing team and over 500 distributors to its distribution network. Ten direct sales offices were also established during the Period. Furthermore, academic promotion activities, including national, provincial and municipal seminars, were organized in order to maintain close ties with professional bodies and industry experts and to further consolidate our leading position in the pharmaceutical industry.

(v) **Research and development**

During the Period, the Company achieved demonstrable progress in its research and development activities. The Company's research and development team has commenced 20 new projects, bringing the total number of projects to more than 70. The clinical trial approval for Cinepazide Mesilate (甲磺酸桂哌齊特), a new exclusive drugs, was granted by SFDA. The Company also filed production applications for several new generic products. In addition, the Company was granted 46 new patents, which have strengthened the Company's ability to achieve sustainable growth in the long run.

(vi) **Production**

Langfang Sihuan Gaobo Pharmaceutical Co., Ltd., one of the Company's Active Pharmaceutical Ingredient ("API") production plants, commenced production in the first half of 2011. In addition, as part of a requirement to fulfill China's new Good Manufacturing Practice ("GMP") requirements, the Company is in the process of upgrading its production facilities in North China, namely at Jilin Sihuan Pharmaceutical Co. Ltd., Benxi Hengkang Pharmaceutical Co., Ltd. and Changchun Xiangtong Pharmaceutical Co., Ltd. and the construction of the new factory of Beijing Sihuan Pharmaceutical Co., Ltd., in an effort to boost production capacity and to ensure high quality production that meets the latest GMP standards.

FINANCIAL REVIEW

Revenue

For the first six-month period ended 30 June 2011, the Company continued to strengthen its CCV drug franchise and focused on expanding into new product markets through acquisitions. The Company's sales revenue was driven by increased sales of other therapeutic drugs with prospects for rapid growth. Total revenue increased by 109.2% to RMB990.6 million from RMB473.4 million in the corresponding period in 2010. The increase in revenue was mainly attributable to strong growth in sales of CCV drugs, particularly newly acquired products.

Revenue from sales of the Company's CCV drugs amounted to approximately RMB874.4 million for the first half of 2011, representing approximately 122.5% growth over the corresponding period in 2010 and accounting for approximately 88.3% of the Group's total revenue. The increase was primarily due to the strong demand for our new products such as Oudimei and Yuanzhijiu after massive promotional and marketing activities undertaken through the Company's distribution network. Additional regional sales offices were also set up in order to penetrate into cities such as Changchun and Dalian. Revenue from sales of CCV drugs increased was largely attributable to sales of newly acquired products launched in the first half of this year, which contributed revenue of RMB425.0 million, or 42.8% of the total revenue during the Period. Sales of Kelinao and Anjieli, our core products, increased by 3.6% and 26.8% respectively from RMB215.9 million and RMB57.0 million respectively in the first six months of 2010 to RMB223.7 million and RMB72.3 million during the Period. Revenue from sales of GMI jumped by 88.4% from RMB31.3 million in the first half of 2010 to RMB58.9 million during the Period. Sales of Qingtong also rose 32.4% to RMB16.9 million in the Period from RMB12.7 million compared to the same period in 2010.

Compared to the same period of last year, our revenue derived from anti-infective drugs during the Period recorded approximately 70.6% growth to RMB52.3 million from RMB30.7 million, accounting for approximately 5.3% of the Group's total revenue, despite the introduction of PRC government measures that restrict the use of anti-infective drugs. Revenue of other drugs increased by approximately 20.9% to RMB59.4 million, accounting for approximately 6.0% of the Group's total income. The increase in sales of anti-infective and other drugs was primarily due to Pojia (Sulbenicillin Sodium for Injection), a new product introduced in 2010, which brought in RMB22.8 million revenue during the Period, as well as a 71.3% increase in sales of our Amino Acid Injection, a total of RMB13.8 million in sales during the Period, compared to RMB8.1 million in the corresponding period of last year.

Cost of sales

Cost of sales rose to RMB215.8 million for the Period compared to RMB127.1 million in the same period last year. Cost of sales to revenue dropped from 26.8% in the same period of last year to 21.8% for the Period due to a higher proportion of sales of products manufactured in our own production facilities, as well as tightened control over production costs and larger scale in the Group's operations.

Gross profit

Our gross profit increased by 123.7% to RMB774.7 million during the Period. Overall gross profit margin improved to 78.2% in the Period from 73.2% in the first half of 2010, which was mainly due to an increased proportion in our product mix of higher margin products manufactured by our newly-acquired companies and lower costs of production.

Other gains - net

Other net gains increased from RMB19.4 million in the same period in 2010 to RMB44.1 million in the Period. This was mainly due to an increase in government grants received by the Group.

Distribution costs

The proportion of our distribution costs to total revenue surged to 29.7% or RMB294.4 million during the Period from 5.6% or RMB26.4 million in the same period in 2010. Such increase was mainly due to the marketing costs related to the sales in the new subsidiaries acquired by the Group in the Period which sales and marketing activities was highly rely on third party services providers, and higher operational costs related to a bigger sales force and intensive marketing activities conducted by the Group.

Administrative expenses

Administrative expenses increased by 49.1% from RMB52.4 million in the first six months of 2010 to RMB78.2 million in the Period. The increase was primarily due to the increase in administrative expenses related to business growth along with the expansion of the Group's business, and the integration expenses incurred during the Period.

Finance income

The net finance income increased form RMB3.1 million in the same period in 2010 to RMB45.9 million in the Period. This was mainly due to the increase in interest income received by the Group.

Income tax expense

Our income tax expense increased by 175.0% from RMB42.7 million to RMB117.4 million in the Period. The increase in income tax expense was mainly attributable to the additional withholding tax provided for the dividends payable according to the PRC tax regulations.

Our effective tax rate for the first half of 2010 and 2011 were 14.7% and 23.8% respectively. The increase in our effective tax rate was mainly attributable to the combined effects of the corporate income tax rate of 25% applicable to the newly acquired companies and the increase in the applicable corporate income tax rate for some of our subsidiaries established in the special economic zones in the PRC.

Profit attributable to equity owners of the Company

Net profit attributable to equity owners of the Company increased by 49.4% from RMB254.8 million in the six months period of 2010 to RMB380.7 million in the first half of 2011.

Non-controlling interests

The loss attributable to non-controlling interests decreased by 21.2% to RMB5.9 million in the Period from RMB7.4 million in corresponding period last year, which was mainly due to the loss contributed by KBP BioSciences Co., Ltd. offset by the profit of other non-wholly owned subsidiaries during the Period.

Liquidity and financial resources

As at 30 June 2011, the Group's cash and cash equivalents amounted to RMB4,967.0 million (31 December 2010: RMB5,851.4 million). Apart from trade and other payables, the Group did not have any other liabilities.

The Directors believe that the financial position of the Group is healthy and we have sufficient financial resources to meet our requirements for future development.

Material Acquisitions and Disposals

The total acquisition costs of the Group during the Period was approximately RMB2,576.8 million. During the Period, the Group completed the following acquisitions, including 1) acquisition of 100% equity interests of Dupromise at the consideration of approximately RMB2,400 million; 2) acquisition of Changchun Xiangtong at the consideration of approximately RMB140.6 million; and 3) acquisition of Benxi Hengkang at the consideration of RMB36.2 million, all of which were acquired from independent third parties.

The considerations of the acquisitions above were determined after arm's length negotiation and conformed to the fair market valuation made by an independent third party valuer.

During the Period, the Group has no material disposal.

Future Prospects

The Company is optimistic that the pharmaceutical industry will continue to be one of the fastest-growing industries in the PRC, driven by the favorable macro environment. As a result of rapid urbanization, increasing disposable income, heightened health awareness, an ageing population, the prevalence of chronic health problems, the government's commitment to health care reform and the 12th Five-Year Plan, the PRC pharmaceutical market is expected to continue to experience a significant rate of growth.

Looking ahead, the Company will step up its efforts in research and development and product diversification to consolidate its leading position in the pharmaceutical industry. In the area of CCV products, the Company now offers a more diverse product portfolio via acquisitions and development. In particular, the newly acquired CCV products, namely, Oudimei, Yimaining and Yuanzhijiu, grew rapidly during the Period. Oudimei has become the Company's new flagship product with great sales potential. The Company plans to boost sales of these products through enhanced efforts in tendering while exploring the potential of more hospitals and medical departments.

The more mature CCV products, such as GMI, Qingtong, Anjieli and Kelinao, are expected to maintain steady growth as a result of further expansion in second and third-tier cities. Other newly acquired products, such as Breviscapine and Sodium Chloride injections, Scutellarin Glucose injections, Salviae Miltiorrhizae and Ligustrazine injections, and Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose injections, though in their initial stage of growth, are expected to start contributing to the Group's revenue in the second half of the year. Non-CCV products, such as Anjiejian, Sulbenicillin Sodium, Zhuo'Ao and Luoanming, will continue to maintain growth and be another source of the Company's revenue. The Company will enhance their sales by increasing their hospital coverage

Furthermore, the Company will continue to expand its marketing team and sales network. The number of product managers and sales managers will increase to approximately 80 and 500 respectively. The Company will strengthen its marketing efforts in organizing academic activities including academic conferences, academic forums, research discussions as well as conducting media campaigns in order to promote our brand and products. The Company will also seek to sell its core products through tender at competitive prices. In addition, the Company will further strengthen its research and development capabilities to sustain future growth.

Riding on a more extensive product portfolio, stronger research and development capabilities, sales and marketing expertise, the Company is confident that it is well on track to meet its sales targets and further its growth in the second half of the year.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2011, the Company has fully complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), save and except from the deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Dr. Che Fengsheng held the roles of both Chairman and chief executive officer of the Company. The Board considers that Dr. Che Fengsheng, as one of the main founders of the Company and possessing extensive medical and pharmaceutical industry knowledge together with unique strategic perspective is suitably qualified to lead the Company and formulate effective strategies to react promptly to market changes and new challenges. His continual service in both roles would be beneficial to the stable and healthy development of the Company. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out the Model Code throughout the six months ended 30 June 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the six months ended 30 June 2011, the Company has complied at all times with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of which should have appropriate professional qualifications or accounting or related financial management expertise.

AUDIT COMMITTEE

The Audit Committee has met with the external auditors of the Group, Messrs. PricewaterhouseCoopers, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2011 of the Group. The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. Patrick Sun (Chairman of the Audit Committee), Mr. Bai Huiliang and Mr. Xu Kangsen and a non-executive director of the Company, namely Dr. Zhang Jionglong. The Chairman of the Audit Committee has the appropriate professional qualification and experience in financial matters.

REVIEW OF ACCOUNTS

The Audit Committee and PricewaterhouseCoopers, our external auditors, have reviewed the Group's interim condensed consolidated financial information for the six months ended 30 June 2011 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

In July 2011, the Company repurchased its ordinary shares totaling 12,476,000 shares at a range of HKD3.22 to HKD3.45 per share, resulted in an aggregate consideration of HKD42,139,000. The repurchased shares were cancelled on 29 July 2011 accordingly.

INFORMATION FOR SHAREHOLDERS

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has declared an interim dividend of RMB1.9 cents per share (2010: nil) and recommended a special dividend of RMB7.8 cents per share (2010: nil). The special dividend is subject to the approval of the shareholders at the special general meeting of the Company ("SGM") to be held on 19 September 2011.

Both the interim dividend and special dividend (if approved by the shareholders at the SGM) will be payable on or around Tuesday, 11 October 2011 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 27 September 2011.

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

The register of members of the Company will be closed from 23 September 2011 to 27 September 2011, both dates inclusive, for the purpose of determining shareholders' entitlements to the interim dividend and special dividend. In order to qualify for the interim dividend and special dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 22 September 2011.

CLOSURE OF THE REGISTER OF MEMEBRS FOR SGM

The SGM will be held on 19 September 2011. A notice convening the SGM will be published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk) in due course.

The register of members of the Company will be closed from 15 September 2011 to 19 September 2011, both dates inclusive. In order to qualify for attending and voting at the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30p.m. on 14 September 2011

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 ON THE STOCK EXCHANGE WEBSITE

This announcement of interim results for the six months ended 30 June 2011 is published on the websites the Stock Exchange at http://www.hkexnews.hk and the Company at http://www.sihuanpharm.com.

PUBLICATION OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The interim report of the Company for the six months ended 30 June 2011 will be dispatched to shareholders of the Company and available on the websites of the Company (http:.//www.sihuanpharm.com) and the Stock Exchange (http://www.hkexnews.hk) in due course.

Shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's Hong Kong share registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or via email at sihuan.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

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

Hong Kong, 30 August 2011

As at the date of this announcement, our executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng and Mr. Meng Xianhui, our non-executive Directors are Dr. Zhang Jionglong, Mr. Homer Sun and Mr. Eddy Huang and our independent non-executive Directors are Mr. Patrick Sun, Mr. Bai Huiliang and Mr. Xu Kangsen.