四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.
四 環 醫 藥 控 股 集 團 有 限 公 司

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

	Year ended 31 December		
	2012	**2011**	**Change**
	RMB '000	*RMB '000*	
Key Income Statement Items			
Revenue	3,042,531	2,242,063	35.7%
Gross profit	2,289,415	1,714,464	33.5%
Operating profit	1,047,755	990,348	5.8%
Profit attributable to owners of the Company	904,402	824,048	9.8%
Key Financial Ratios			
Gross profit margin	75.2%	76.5%	
Net profit margin	29.7%	36.8%	
Earnings per share — Basic (RMB cents)	17.48	15.90	
Receivable Turnover (days)	58	33	
Inventory Turnover (days)	36	38	
Proposed final dividend per share (RMB cents)	5.8	2.5	

2012 FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 35.7% to RMB3,042.5 million in 2012 from RMB2,242.1 million.
- Profit attributable to owners of the Company increased by 9.8% to RMB904.4 million in 2012.
- Basic earnings per share increased by approximately 9.9% over 2011 to approximately RMB17.48 cents.
- A final dividend of RMB5.8 cents per share was recommended by the Board and are subject to the approval of the shareholders at the annual general meeting of the Company to be held on 31 May 2013.

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 2012 together with the comparative figures for the previous year as follows:

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2012	**2011**
	Note	*RMB'000*	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		924,052	419,258
Investment properties		30,894	6,834
Intangible assets	4	3,735,030	3,080,147
Land use rights		165,637	88,912
Trade and other receivables	5	154,192	—
Investment in associates		40,962	—
Held-to-maturity financial assets		—	17,917
Deferred income tax assets		265,176	69,483
Other non-current assets		122,521	97,668
		5,438,464	3,780,219
Current assets			
Inventories		91,472	57,653
Trade and other receivables	5	769,120	718,795
Available-for-sale financial assets	6	717,921	780,135
Held-to-maturity financial assets		—	18,318
Term deposit with initial term of over three months		898,560	—
Cash and cash equivalents		1,543,907	3,153,154
		4,020,980	4,728,055
Assets of disposal group classified as held for sale		—	345,824
		4,020,980	5,073,879
Total assets		9,459,444	8,854,098

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	7	44,419	44,419
Share premium	7	5,573,951	5,573,951
Other reserves		65,256	153,485
Retained earnings			
— Proposed final and special dividends	16	300,151	501,978
— Others		1,100,551	671,701
		7,084,328	6,945,534
Non-controlling interests		102,927	48,409
Total equity		7,187,255	6,993,943
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		208,532	113,133
Other non-current liabilities	9	207,407	—
Borrowings	8	5,880	5,880
		421,819	119,013
Current liabilities			
Trade and other payables	10	867,368	1,540,292
Borrowings	8	767,234	—
Current income tax liabilities		215,768	109,039
		1,850,370	1,649,331
Liabilities of disposal group classified as held for sale		—	91,811
		1,850,370	1,741,142
Total liabilities		2,272,189	1,860,155
Total equity and liabilities		9,459,444	8,854,098
Net current assets		2,170,610	3,332,737
Total assets less current liabilities		7,609,074	7,112,956

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012 *RMB'000*	2011 *RMB'000*
Revenue	11	3,042,531	2,242,063
Cost of sales	12	(753,116)	(527,599)
Gross profit		2,289,415	1,714,464
Other income	11	5,825	—
Other gains — net	11	271,406	108,542
Distribution costs	12	(1,312,251)	(631,568)
Administrative expenses	12	(206,640)	(201,090)
Operating profit		1,047,755	990,348
Finance income	13	126,838	56,367
Finance costs	13	(2,705)	(1,859)
Finance income — net		124,133	54,508
Share of loss of an associate		(6,347)	—
Profit before income tax		1,165,541	1,044,856
Income tax expense	14	(243,999)	(244,823)
Profit for the year		921,542	800,033
Profit attributable to:			
Owners of the Company		904,402	824,048
Non-controlling interests		17,140	(24,015)
		921,542	800,033
Earnings per share attributable to owners of the Company during the year			
— Basic and diluted earnings per share *(RMB cents)*	15	17.48	15.90
Other comprehensive income:			
Disposal of available-for-sale financial asset	6	(1,635)	—
Change in value of available-for-sale financial assets	6	1,021	1,635
Total comprehensive income for the year		920,928	801,668
Total comprehensive income attributable to:			
Owners of the Company		903,788	825,683
Non-controlling interests		17,140	(24,015)
		920,928	801,668
Dividends	16	460,577	227,701

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance as at 1 January 2011	44,526	5,608,947	111,876	891,582	6,656,931	2,598	6,659,529
Comprehensive income							
Profit for the year	—	—	—	824,048	824,048	(24,015)	800,033
Other comprehensive income							
Change in value of available-for-sale financial assets	—	—	1,635	—	1,635	—	1,635
Total other comprehensive income, net of tax	—	—	1,635	—	1,635	—	1,635
Total comprehensive income	—	—	1,635	824,048	825,683	(24,015)	801,668
Total contribution by and distributions to owners of the Company recognised directly in equity							
Contribution from non-controlling interest	—	—	—	—	—	300	300
Repurchase and cancellation of shares	(107)	(34,996)	—	—	(35,103)	—	(35,103)
Dividends	—	—	—	(501,977)	(501,977)	—	(501,977)
Transfer to PRC statutory reserve fund	—	—	40,974	(40,974)	—	—	—
Total contributions by and distributions to owners of the Company	(107)	(34,996)	40,974	(542,951)	(537,080)	300	(536,780)
Non-controlling interests arising on business combination	—	—	—	—	—	20,866	20,866
Non-controlling interest arising on partial disposal of a subsidiary	—	—	—	—	—	48,660	48,660
Disposal of a subsidiary	—	—	(1,000)	1,000	—	—	—
Total transaction with owners	(107)	(34,996)	39,974	(541,951)	(537,080)	69,826	(467,254)
Balance as at 31 December 2011	44,419	5,573,951	153,485	1,173,679	6,945,534	48,409	6,993,943

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2012	44,419	5,573,951	153,485	1,173,679	6,945,534	48,409	6,993,943
Comprehensive income							
Profit for the year	—	—	—	904,402	904,402	17,140	921,542
Other comprehensive income							
Disposal of available-for-sale financial assets	—	—	(1,635)	—	(1,635)	—	(1,635)
Change in value of available-for-sale financial assets	—	—	1,021	—	1,021	—	1,021
Total other comprehensive inome, net of tax	—	—	(614)	—	(614)	—	(614)
Total comprehensive income	—	—	(614)	904,402	903,788	17,140	920,928
Total contribution by and distributions to owners of the Company recognised directly in equity							
Employee share option scheme — value of employee service	—	—	7,678	—	7,678	—	7,678
Dividends	—	—	—	(662,404)	(662,404)	—	(662,404)
Transfer to PRC statutory reserve fund	—	—	15,475	(15,475)	—	—	—
Total contributions by and distributions to owners of the Company	—	—	23,153	(677,879)	(654,726)	—	(654,726)
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	4,310	4,310
Changes in ownership interests in a subsidiary without change of control	—	—	(110,268)	—	(110,268)	33,068	(77,200)
Deregistration of a subsidiary	—	—	(500)	500	—	—	—
Total transaction with owners	—	—	(87,615)	(677,379)	(764,994)	37,378	(727,616)
Balance as at 31 December 2012	44,419	5,573,951	65,256	1,400,702	7,084,328	102,927	7,187,255

CONSOLIDATED STATEMENT OF CASH FLOW

	Year ended 31 December 2012 *RMB'000*	2011 *RMB'000*
Cash flows from operating activities		
Cash generated from operations	1,283,628	927,960
Income tax paid	(237,564)	(215,026)
Net cash generated from operating activities	1,046,064	712,934
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(1,180,000)	(1,874,247)
Acquisition of an associate	(47,309)	—
Acquisition of addition interest of a subsidiary	(77,200)	—
Proceeds from partial disposal of a subsidiary	—	100,000
Proceeds from disposal of property, plant and equipment	4,098	—
Proceeds from disposal of intangible assets	22,787	—
Increase of term deposit with initial term of over three months	(898,560)	—
Purchase of available-for-sale financial assets	(716,900)	(778,500)
Proceeds from disposal of held-to-maturity financial assets	36,393	—
Purchase of property, plant and equipment	(529,229)	(114,526)
Purchase of intangible assets	(185,420)	(97,467)
Acquisition of land use rights	(80,655)	(49,245)
Prepayment for acquisition of land use rights	(24,853)	(97,668)
Proceeds from disposal of available-for-sale financial assets	788,919	—
Disposal of a subsidiary, net of cash disposed of	—	(4,887)
Interest received	123,838	53,828
Net cash used in investing activities	(2,764,091)	(2,862,712)
Cash flows from financing activities		
Repurchase and cancellation of shares	—	(35,103)
Repayment of borrowings	—	(17,079)
Proceeds from borrowings	767,234	5,880
Non-controlling interests arising on establishing a new subsidiary	4,310	—
Dividends paid	(662,404)	(501,977)
Interest paid	(360)	(168)
Net cash generated from /(used in) financing activities	108,780	(548,447)
Net decrease in cash and cash equivalents	(1,609,247)	(2,698,225)
Cash and cash equivalents at beginning of year	3,153,154	5,851,379
Cash and cash equivalents at end of year	1,543,907	3,153,154

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 Group are research and development, 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 10025, P.R.C.

The Company has 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 of Directors on 25 March 2013.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

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.

New and amended standards adopted by the Group.

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2012, are either not currently relevant or have no impact on the Group's consolidated financial statements.

- IAS 12 (Amendment), 'Income taxes'
- IFRS 7 (Amendment) 'Disclosures-Transfer of financial assets'
- IFRS 1 (Amendment) 'Severe hyperinflation and removal of fixed dates for first-time adopters'

(ii) New and amended standards not yet adopted by the Group.

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group.

- IAS1 (Amendment) 'Financial statement presentation' regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012
- IFRS1 (Amendment) 'First time adoption', on government loans is effective for annual periods beginning on or after 1 January 2013
- Amendment to IFRS10,11,12 on transition guidance is effective for annual periods beginning on or after 1 January 2013
- Annual improvements 2011 applies retrospectively for annual periods beginning on or after 1 January 2013, including IFRS 1, 'First time adoption', IAS 1, 'Financial statement presentation', IAS 16, 'Property plant and equipment', IAS 32, 'Financial instruments presentation' , IAS 34, 'Interim financial reporting'
- IFRS 10 (Amendment) 'Consolidated financial statements" is effective for annual periods beginning on or after 1 January 2013
- IAS 27 (Revised) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013
- IFRS 11 (Amendment) 'Joint arrangements' is effective for annual periods beginning on or after 1 January 2013
- IFRS 28 (Revised) 'Associates and joint ventures' is effective for annual periods beginning on or after 1 January 2013
- IFRS 12 (Amendment) Disclosure of interests in other entitie' is effective for annual periods beginning on or after 1 January 2013
- IFRS 13 (Amendment) 'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013

- IFRS 19 (Amendment) 'Employee benefits' is effective for annual periods beginning on or after 1 January 2013

- IFRIC 20 (Amendment) 'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 1 January 2013

- IAS 32 (Amendment) 'Financial instruments: Presentation' on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014

- IFRS 9 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2015

- IFRS 7 and IFRS 9 (Amendment) 'Mandatory effective date and transition disclosures' is effective for annual periods beginning on or after 1 January 2015

Management does not anticipate that the application of the revised standards will result in a material impact on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. 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 product perspective. The Group is engaged in only one business segment, the research and development, manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2012, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2011: none).

4. INTANGIBLE ASSETS

	Goodwill	Customer relationship	Deferred development costs	Product development in progress	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(a)	
At 1 January 2011						
Cost	51,050	28,000	89,094	166,706	2,893	337,743
Accumulated amortisation	—	(18,200)	(58,341)	—	(1,166)	(77,707)
Impairment	(35,117)	—	(1,063)	(70,387)	—	(106,567)
Net book amount	15,933	9,800	29,690	96,319	1,727	153,469
Year ended 31 December 2011						
Opening net book amount	15,933	9,800	29,690	96,319	1,727	153,469
Acquisition of subsidiaries	2,695,305	26,941	546,140	—	19,225	3,287,611
Additions	—	—	74,492	22,919	56	97,467
Disposal of a subsidiary	(1,860)	—	—	—	—	(1,860)
Partial disposal of a subsidiary	(98,590)	—	—	—	—	(98,590)
Transfer	—	—	5,000	(5,000)	—	—
Written off	—	—	—	(4,551)	—	(4,551)
Tranfer to disposal group classified as held for sale	—	—	(291,857)	—	—	(291,857)
Impairment charge	(1,943)	—	—	(39)	—	(1,982)
Amortisation charge	—	(9,170)	(47,600)	—	(2,790)	(59,560)
Closing net book amount	2,608,845	27,571	315,865	109,648	18,218	3,080,147
At 31 December 2011						
Cost	2,645,905	54,941	425,815	178,804	22,173	3,327,638
Accumulated amortisation	—	(27,370)	(108,887)	—	(3,955)	(140,212)
Impairment	(37,060)	—	(1,063)	(69,156)	—	(107,279)
Net book amount	2,608,845	27,571	315,865	109,648	18,218	3,080,147

	Goodwill	Customer relationship	Deferred development costs	Product development in progress	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(a)*	*RMB'000*
Year ended 31 December 2012						
Opening net book amount	2,608,845	27,571	315,865	109,648	18,218	3,080,147
Additions	—	351,990	—	18,212	218	370,420
Transfer	—	—	100	(100)	—	—
Disposals	—	—	—	(5,745)	(37)	(5,782)
Adjustment on partial disposal of a subsidiary in 2011	98,590	—	—	—	—	98,590
Transfer from disposal group classified as held for sale	—	—	291,857	—	—	291,857
Impairment charge	—	—	—	(12,502)	—	(12,502)
Amortisation charge	—	(46,095)	(38,575)	—	(3,030)	(87,700)
Closing net book amount	2,707,435	333,466	569,247	109,513	15,369	3,735,030
At 31 December 2012						
Cost	2,744,495	406,931	727,837	191,171	22,354	4,092,788
Accumulated amortisation	—	(73,465)	(157,527)	—	(6,985)	(237,977)
Impairment	(37,060)	—	(1,063)	(81,658)	—	(119,781)
Net book amount	2,707,435	333,466	569,247	109,513	15,369	3,735,030

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

5. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Trade receivables — third parties	599,582	387,893
Amount receivable from partial disposal of a subsidiary	154,192	142,250
Prepayments to suppliers	69,426	73,694
Value added tax payable	20,409	—
Other receivables	79,703	114,958
	923,312	718,795
Less: non current portion		
Amount receivable from partial disposal of a subsidiary	154,192	—
Current portion	769,120	718,795

The Group's credit terms granted to customers range from one month to one year. Trade receivables that are aged less than one year are not considered impaired. The ageing analysis of trade receivables is as follows:

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Within 3 months	563,994	339,096
3 to 6 months	32,607	9,293
6 months to 1 year	2,666	39,248
More than 1 year	315	256
	599,582	387,893

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
At 1 January	780,135	—
Additions	716,900	778,500
Disposals	(780,135)	—
Net gain from change in fair value of available-for-sale financial assets	1,021	1,635
At 31 December	717,921	780,135

Available-for-sale financial assets include the following:

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Short-term investments	717,921	780,135

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 3.69% (2011:6.59%).

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	Number of issued and fully paid ordinary shares	Share capital	Share premium	Total
	'000	*'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2011 (HK$0.01 per share)	10,000,000	5,187,500	44,526	5,608,947	5,653,473
Repurchase and cancellation of shares (a)	—	(12,476)	(107)	(34,996)	(35,103)
As at 31 December 2011 (HK$0.01 per share)	10,000,000	5,175,024	44,419	5,573,951	5,618,370
As at 31 December 2012 (HK$0.01 per share)	10,000,000	5,175,024	44,419	5,573,951	5,618,370

(a) In July 2011, the Company repurchased its ordinary shares totalling 12,476,000 shares at a range of HK$3.22 to HK$3.45 per share, with an aggregate consideration of HK$42,290,000 (approximately RMB35,103,000), including the relevant transaction expense of HK$151,000 (approximately RMB125,000). The difference between the par value of the ordinary shares and the aforesaid consideration, totalling RMB34,996,000, is deducted against the share premium account of the Company. The repurchased shares were cancelled in July 2011 accordingly.

8. BORROWINGS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Non-current		
- Other loans from non-controlling interest (a)	5,880	5,880
Current		
- bank borrowings (b)	704,148	—
- Other loans from non-controlling interest (a)	63,086	—
	773,114	5,880

(a) These amounts represent the borrowings from Langfang Gaobo Jingband Pharmaceutical Co., Ltd.'s ("Langfang Gaobo Jingband", formerly known as "Langfang Sihuan Gaobo Pharmaceutical Co., Ltd.") non-controlling interest, which bear effective interest rate of 6.91% as at 31 December 2012 (31 December 2011: 6.53%).

(b) Bank borrowings of RMB209,301,000 as at 31 December 2012 (2011: nil) were guaranteed by the Company without pledge. Bank borrowings of RMB494,847,000 as at 31 December 2012 (2011: nil) were unsecured borrowings.

At 31 December 2012, the Group's borrowings were repayable as follows:

	As at 31 December			
	Bank borrowings		Others loans	
	2012	**2011**	**2012**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	704,148	—	63,086	—
Between 1 and 2 year	—	—	—	—
Between 2 and 5 years	—	—	5,880	5,880
	704,148	—	68,966	5,880

	As at 31 December			
	Bank borrowings		Others loans	
	2012	**2011**	**2012**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wholly repayable within 5 years	704,148	—	68,966	5,880

The borrowings bear average interest rate of 2.08% (2011: 6.9%) annually.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
6 months or less	773,114	5,880

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

9. OTHER NON-CURRENT LIABILITIES

	Group	
	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Deferred gain on partial disposal of a subsidiary	193,590	—
Deferred revenue for sales of distribution right	13,817	—
	207,407	—

10. TRADE AND OTHER PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade payables	36,207	29,223
Accrued marketing service fee	329,923	—
Payable of purchase of customer relationship	185,000	—
Advances from customers	88,668	66,701
Deposit payables	73,434	26,340
Advance of compensation from government for demolition of existing premise	30,000	—
Amount payable due to the acquisition of subsidiaries	20,000	1,200,000
Value added tax payables	16,071	30,253
Accrued performance bonus to directors	4,800	21,993
Deferred gain on partial disposal of a subsidiary	—	95,000
Other payables	83,265	70,782
	867,368	1,540,292

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Within 6 months	30,078	25,574
6 months to 1 year	711	1,252
More than 1 year	5,418	2,397
	36,207	29,223

11. REVENUE, OTHER INCOME AND OTHER GAINS — NET

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Revenue:		
Sales of pharmaceutical products	3,042,531	2,242,063
Other income:		
Sale of distribution right	3,454	—
Rental income	2,371	—
	5,825	—
Other gains — net:		
Government grants	260,472	115,960
Gain on disposal of intangible assets	14,590	—
Gain on disposal of available-for-sale financial assets	10,419	—
Processing fee income	2,742	1,374
Loss on disposal of a subsidiary	—	(1,829)
Others	(16,817)	(6,963)
	271,406	108,542

12. EXPENSES BY NATURE

	Year ended 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Research and development costs		
Research expenses	15,379	34,371
Amortisation of deferred development costs *(Note 4)*	38,575	47,600
	53,954	81,971
Marketing expenses	1,209,945	557,126
Raw materials used	561,675	406,070
Employee benefit expenses	122,679	95,578
Amortisation of intangible assets excluding the amortisation of deferred development costs *(Note 4)*	49,125	11,960
Office expenses	44,817	31,359
Depreciation of property, plant and equipment	39,789	32,806
Changes in inventories of finished goods and work in progress	25,501	11,873
Travelling expenses	22,307	20,288
Transportation expenses	17,278	15,399
Professional services expense	13,384	25,872
Inpairment of intangible assets	12,502	—
Entertainment expenses	5,343	4,317
Amortisation of land use rights	3,930	2,516
Operating lease payments	3,410	3,805
Auditors' remuneration	3,350	3,270
Depreciation of investment property	809	430
Others	82,209	55,617
Total cost of sales, distribution costs and administrative expenses	2,272,007	1,360,257

13. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Exchange gain/(loss)	4,618	(1,110)
Bank charges	(340)	(175)
Interest expenses	(6,983)	(574)
Finance costs	(2,705)	(1,859)
Interest income	126,838	56,367
Finance income	126,838	56,367
Net finance income	124,133	54,508

14. INCOME TAX EXPENSE

	Year ended 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Current tax	419,986	228,770
Deferred tax	(175,987)	16,053
Income tax expense	243,999	244,823

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during 2012 (2011: nil).

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	
	2012	**2011**
	RMB'000	*RMB'000*
Profit before tax	1,165,541	1,044,856
Tax calculated at the PRC statutory tax rate of 25% (2011: 25%)	291,385	260,416
Tax effects of:		
— Utilisation of previously unrecognised tax losses	(24,708)	—
— Income not subject to tax	(5,609)	—
— Withholding tax on the earnings expected to be remitted by subsidiaries	32,000	54,600
— Effect of tax reduction and exemption	(56,123)	(94,238)
— Expenses not deductible for tax purposes	4,687	4,083
— Tax losses for which no deferred income tax asset was recognised	2,367	19,962
Income tax expense	243,999	244,823

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 including the ordinary shares repurchased by the Company in July 2011.

	Year ended 31 December	
	2012	**2011**
Profit attributable to owners of the Company *(RMB'000)*	904,402	824,048
Weighted average number of ordinary shares in issue for basic earnings per share *('000)*	5,175,024	5,181,797
Basic earnings per share *(RMB cents per share)*	17.48	15.90

(b) Diluted

There is no dilution to earnings per share during 2012 and 2011 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 2012 and 2011 were RMB662,404,000 and RMB501,977,000 respectively. Final dividend in respect of the year ended 31 December 2012 of RMB5.8 cents is to be proposed at the annual general meeting on 31 May 2013. These consolidated financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Final dividend paid of RMB2.5 cents per ordinary share for 2011	129,376	—
Second special dividend paid of RMB7.2 cents per oridnary share for 2011	372,602	—
Interim dividend paid of RMB3.1 (2011: RMB1.9) cents per ordinary share	160,426	98,325
Special dividend paid of RMB nil (2011: RMB7.8) cents per ordinary share	—	403,652
	662,404	501,977
Proposed final dividend of RMB5.8 (2011: RMB2.5) cents per ordinary share	300,151	129,376
Second proposed special dividend of RMB nil (2011: RMB7.2) cents per ordinary share	—	372,602
	300,151	501,978

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	
	2012	**2011**
	RMB'000	*RMB'000*
Property, plant and equipment	476,810	13,785
Intangible assets — product development in progress	19,003	21,118
	495,813	34,903

(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	
	2012	**2011**
	RMB'000	*RMB'000*
No later than 1 year	780	1,413
Later than 1 year and no later than 2 years	860	821
Later than 2 years	2,100	2,960
	3,740	5,194

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Throughout 2012, China's pharmaceutical industry continued to grow on the back of the accelerated pace of urbanization level, aging population and expanded medical insurance coverage in the country. Moreover, the Chinese government has increased its support to the bio-pharmaceutical industry, positioning as a national strategic and emerging industry, to promote the innovation and healthy development of the industry. However, China's pharmaceutical industry continues to face regulatory pressures such as price adjustments for drugs, the separation of the dispensing and prescription of drugs, the zero mark-up policy and control of medical insurance spending at hospitals etc. The impact of such policies continued to linger throughout 2012.

In the face of challenges, Sihuan Pharmaceutical built on its leading position in the cardio-cerebral vascular ("CCV") prescription drug market and posted satisfactory results in 2012. According to IMS Heath Incorporated ("IMS"), the market share of the Sihuan Pharmaceutical's CCV drugs in terms of hospital purchase was 8.1% (IMS new statistics include traditional Chinese medicine ("TCM") prescription drugs) at the end 2012, 3.2% ahead of the second-largest player in the Chinese CCV prescription drug market. The Group also became the eighth largest pharmaceutical company in terms of hospital purchase in the Chinese prescription drug market in 2012.

The Group's revenue increased by 35.7% to RMB3,042.5 million. Net profit attributable to owners of the Company also grew by 9.8% to RMB904.4 million. The Group's operational performance was boosted by a further diversified product portfolio as the sales contribution from its promising products (products launched after its listing in 2010) exceed half of its sales revenue. Further, the Group has achieved breakthroughs in its research and development ("R&D") which have enriched its product pipeline and drive its long-term growth. The Group has also taken a major step forward in collaboration with international companies during the year. Nonetheless, the Group has completed integration of distribution network of companies acquired after its listing to further strengthen its sales and marketing capability.

CCV products

In 2012, sales of CCV products grew 38.8% to RMB2,803.9 million, mainly driven by the broadened revenue base. The CCV business, which accounted for 92.2% of total revenue, remained the Group's largest revenue contributor during the year.

Sales of key CCV products:

Product	For the year ended 31 December 2011 (RMB'000)	For the year ended 31 December 2012 (RMB'000)	2011 Cotnribution to Sales of CCV Products	2012 Contribution to Sales of CCV Products	Product characteristics
Oudimei (Cerebroside-kinin injection)	654,859	696,067	32.4%	24.8%	For promoting metabolism of the heart, brain tissues, and neurons of the brain tissue regeneration process, improving cerebral metabolic functions; clinically used for the treatment of dysfunction caused by cardiac and brain diseases.
Kelinao (Cinepazide maleate injection) (80 mg)	529,430	649,636	26.2%	23.2%	For improving ischemic tissue blood supply and protecting ischemic tissue. Widely used in the treatment of cardiovascular and cerebrovascular and peripheral vascular diseases.
Anjieli (Cinepazide maleate injection) (320 mg)	202,187	123,360	10.0%	4.4%	
Yuanzhijiu (Troxerutin and cerebroprptein hydrolysate injection)	83,236	361,213	4.1%	12.9%	For the treatment of cardio-cerebral vascular diseases.
GM1 (Monosialotetrahexosylganglioside sodium injection)	143,627	217,098	7.1%	7.7%	For neural tissue cells protection and repairing agents; for treatment of traumatic brain injuries, cerebral vascular accidents and Parkinson's disease.
Guhong injection (Compound of aceglutamide and safflower extract)	93,870	205,475	4.6%	7.3%	For the treatment of cerebrovascular problems such as cerebral insufficiency, cerebral embolism and cerebral hemorrhage recovery period; dysfunction caused by the awareness of liver disease, neurological surgery; mental deterioration, and memory impairment.
Yimaining (Alprostadil lipid emulsion injection)	62,410	125,902	3.1%	4.5%	Used for targeting microcirculation and protecting organs and tissue cells. Widely used to treat chronic arteriosclerosis obliterans, unstable angina, myocardial infarction, coronary artery bypass surgery, cerebral infarction, ischemic spinal cord injury, diabetes, peripheral neuropathy, diabetes and kidney disease.

Product	For the year ended 31 December		2011 Cotnribution to Sales of CCV Products	2012 Contribution to Sales of CCV Products	Product characteristics
	2011	2012			
	(RMB'000)	*(RMB'000)*			
Chuanqing (Ligustrazine hydrochloride for injection)	82,709	93,010	4.1%	3.3%	Widely used to treat ischemic cerebrovascular disease, coronary heart disease, cerebral embolism, vasculitis and vascular dementia.
Qu'Ao (Cerebroprotein hydrolysate)	68,227	92,485	3.4%	3.3%	For promoting neural cell metabolism and differentiation and synthesis of brain protein. Widely used to treat brain cell dysfunction caused by cerebrovascular disease, traumatic brain injuries and Alzheimer's disease.
Yeduojia (Compound trivitamin B for injection (II))	25,493	73,531	1.3%	2.6%	Currently the only intravenous administration of a vitamin B compound formulation; used for peripheral nerve injuries, multiple neuritis, trigeminal neuralgia, sciatica, radiation sickness, antineoplastic-induced vomiting, pernicious anemia, nutritional anemia.
Danshen Chuanxiongqin injection (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	8,341	73,121	0.4%	2.6%	Featuring anti-platelet aggregation, vasodilation and improving microcirculation, it can be used to treat occlusive cerebrovascular diseases such as brain dysfunction, cerebral thrombosis, cerebral infarction; and ischemic cardiovascular diseases such as angina pectoris, myocardial infarction, etc.
Qingtong (Edaravone injection)	45,713	67,019	2.3%	2.4%	An oxygen free radical scavenger widely used to treat cardiovascular and cerebrovascular diseases, as well as peripheral vascular disease (PDA) for people with diabetes.

The Group's continuous efforts in product diversification were evident in the impressive growth of its promising products. With strengthened academic promotion, sales contribution from them execeeded half of the Group's total sales revenue. Sales of Yuanzhijiu, Yimaining, Yeduojia, Guhong injection and Danshen Chuanxiongqin injection grew significantly by 334.0%, 101.7%, 188.4%, 118.9% and 776.6% to RMB 361.2 million, RMB 125.9 million, RMB 73.5 million, RMB 205.5 million and RMB 73.1 million respectively. As for Oudimei, the Group completed the integration of its distribution network in the first half of the year, which enhanced the Group's operational efficiency and its sales and marketing capabilities. Sales of Oudimei improved in the second half of 2012, despite a delay in provincial tendering, and recorded an overall growth for the year.

The Group's established products recorded steady sales growth on the back of deepened market penetration especially into low-end markets. Sales of GM1, Qu'Ao, Qingtong and Chuanqing for the year grew by 51.2%, 35.6%, 46.6% and 12.5% to RMB217.1 million, RMB 92.5 million, RMB67.0 million and RMB93.0 million respectively.

During the year, sales volume of Kelinao and Anjieli saw a decline compared to the previous year due to multiple reasons, including the slower-than-expected lifting of reimbursement restrictions at the provincial level, stricter control of total medical insurance spending of hospitals and an adjustment of the Group's marketing strategy etc. The increase in sales revenue of Kelinao recorded in 2012 was mainly attributable to the increase in selling price as a result of the adjustment of the Group's marketing strategy, whereby the Group is responsible for the marketing expenses for the distributors, and had increased selling price accordingly to reflect the increase in costs. In 2013, the Group plans to provide more support to distributors on academic promotion as well as achieving further penetration into third to fourth tier cities. In addition, the Group will strive to lift reimbursement restriction in more provinces and step up marketing promotions in provinces where such restrictions were recently removed. With these efforts, sales of Kelinao and Anjieli are expected to improve gradually in 2013.

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

Sales of key Non-CCV products:

	Product	For the year ended 31 December 2011 (RMB‘000)	For the year ended 31 December 2012 (RMB‘000)	2011 Contribution to Sales of Non-CCV Products	2012 Contribution to Sales of Non-CCV Products	Product characteristics
Central nervous system drug	Ren’Ao (Oxcarbazepine)	8,149	13,675	3.7%	5.7%	New generation of antiepileptic drug with a broad spectrum that is highly effective and safe. It can be used as an alternative to carbamazepine.
Metabolism drug	Luoanming (Amino acid injection)	35,351	58,205	16.0%	24.4%	Used for hypoalbuminemia, inadequate protein intake or malabsorption, and protein synthesis obstacles.
Respiratory system drug	Bi’Ao (Ambroxol hydrochloride)	40,955	52,753	18.5%	22.1%	Clinical first-line expectorant phlegm drugs. Used for the expectorant treatment of acute chronic respiratory diseases. It is also a regular medication taken to prevent lung infections after surgery.
	Zhuo’Ao (Ambroxol hydrochloride)	9,115	14,436	4.1%	6.1%	
Anti-infective drug	Pojia (Sulbenicillin sodium)	36,197	35,542	16.4%	14.9%	Broad-spectrum penicillin with a broad antagonistic spectrum, strong antibacterial activity, low-levels of drug resistance, and which is safe and well-tolerated.

During the year, the Group stepped up efforts to promote its key non-CCV products. Sales of its central nervous system product, Ren’Ao, which is used primarily in the treatment of epilepsy, increased 67.8% to RMB13.7 million. The Group’s respiratory system drugs, including Zhuo’Ao and Bi’Ao, grew by 58.4% and 28.8% respectively, accounting for combined sales of approximately RMB67.2 million. Sales of Luoanming, a metabolism drug, increased by 64.6% to RMB58.2 million. Sales of Pojia rebounded in the second half of 2012 and fell just 1.8% to RMB35.5 million due to stricter restrictions on the clinical use of anti-infective drugs.

Sales and Marketing

Leveraging the expansion in national medical insurance coverage, the Group implemented a two-pronged marketing strategy by stepping up its marketing efforts for both its promising products and established products. The results were evident in the strong growth of over 50% in the sales of 9 major products in 2012, compared to the previous year. The Group has also completed integration of the distribution network of companies acquired after its listing, which significantly improved its operational efficiency. In addition, the Group reinforced its competitiveness by strengthening its academic promotion, which has always stand the Group out in the industry.

i. *Strengthening academic promotion for promising products*

   Academic promotion is the key to market development of newly launched products. The Group organized more academic promotion conferences and other activities to build closer ties with physicians and medical specialists, and to deepen their understanding of the clinical advantages of the Group's promising products. During the year, the Group organized 15 national medical conferences, 36 provincial medical conferences and over 3,100 departmental seminars at hospitals. The Group had over 1,000 training sessions for distributors and internal sales and marketing staff to improve their knowledge of the promising products and, with support of our medically trained product managers, to more effectively educate physicians and specialists on those products so as to encourage clinical use.

ii. *Boosting recognition of key products through clinical trials*

   The Group started clinical studies on its key products in partnership with major hospitals in order to enhance physicians' recognition and knowledge of the products and to build closer ties with major hospitals and specialists participating in those studies. These studies include:

   - a study of Cattle Encephalon Glycoside and Ignotin on retinal cellular protection
   - a study of Cattle Encephalon Glycoside and Ignotin on treatment of cerebral infarction

- the mechanisms study of Cinepazide maleate on anti-cerebral ischemia injury
- a study of Cinepazide Maleate on Adenosine synergia
- a Real World Study of the safety of Cinepazide maleate
- a clinical study of Troxerutin and Cerebrprotein Hydrolysate Injection on treatment of stroke and craniocerebral injuries

iii. *Expanding coverage in low-end markets for established products*

The Group increased the penetration of its established products in low-end markets, such as Class II and Class I hospitals and community clinics to tap the rising demand attributable to broader national medical insurance coverage, through cooperation with distributors with sales network in those markets.

iv. *Completed integration of sales and marketing system*

By the end of 2012, the Group completed the integration of the distribution network of Jilin Sihuan Pharmaceutical Co., Ltd ("Jilin Sihuan"). This enhanced the Group's operational efficiency as well as its sales and marketing capabilities.

v. *Expanding sales and marketing team*

The Group expanded its sales and marketing team by recruiting more than 100 sales staff during the year. At the end of 2012, the Group operated more than 60 sales offices with a sales team of about 600.

Research and Development ("R&D")

The Group continued to commit considerable effort in R&D and achieved several breakthroughs during the year.

i. *Breakthrough of R&D projects:*

- Roxatidine Acetate Hydrochloride for Injection (注射用鹽酸羅沙替丁醋酸酯), a first-to-market exclusive generic drug, received approval for production from the State Food and Drug Administration ("SFDA") and will enjoy four years of administrative protection. It is a new generation H_2 receptor antagonist mainly used for gastrointestinal ulcers and bleeding and pre-anesthesia application.

- Nalmefene Hydrochloride Injection (鹽酸納美芬注射液), a Category 3.1 generic drug, received approval for production from the SFDA. It is a new generation opioid receptor inhibitor following Naloxone and Naltrexone. It is on its way to becoming a substitute for Naloxone, and has been included in Part B of the National Medicine Catalogue.

- R&D projects of other Category 3.1 generic drugs in the pipeline include: Levetiracetam injection (左乙拉西坦注射液) and Lacosamide (拉克醯胺), both of which are anti-epilepsy drugs; and Aprepitant (阿瑞吡坦), which is used to prevent clinical depression as well as post-operative and chemotherapy-induced nausea and vomiting. R&D projects of several innovative drugs are also progressing as planned.

- By the end of 2012, the Group had applied for national drug awards for five of its R&D projects to showcase its success in innovation, and had been granted 32 new patent rights.

ii. *Restructuring of innovative drug R&D team*

To enhance the efficiency in R&D and to consolidate its resources, the Group carried out the restructuring of Xuanzhu Pharma Co., Ltd. ("Xuanzhu Pharma", or known as "KBP BioSciences Co., Ltd.") and acquired 40% of its equity interest. Xuanzhu Pharma then became a wholly-owned subsidiary of the Group and continued to undertake research and development in innovative drugs under the Group's overall development strategy, with a focus on major therapeutic areas such as CCV, metabolism and oncology.

International Collaboration

In November 2012, Sihuan Pharmaceutical entered into a collaboration agreement with NeuroVive Pharmaceutical AB ("NeuroVive"), a leading international mitochondrial pharmaceutical development company based and listed in Sweden. This was to develop two innovative products, CicloMulsion® (used for the treatment of heart reperfusion injuries) and NeuroSTAT® (used for the treatment of traumatic brain injuries), which have commenced Phase III and Phase II of clinical trials respectively. This important collaborative agreement with a renowned international pharmaceutical development company marks a breakthrough for the Group's business development. The collaboration will combine Sihuan Pharmaceutical's competitive advantages in product development, marketing promotion and distribution network with NeuroVive's advanced drug development technology. This will enrich the Group's product portfolio with products of high technological level and widen its revenue stream.

Langfang Gaobo Jingband established cooperation with Korean company DBLS Ltd. and has completed the filing of Drug Master File ("DMF") to Korean Food and Drug Administration ("KFDA"). In addition, the production and quality management system of Langfang Gaobo Jingband's plant has passed individual on-site audits carried out by Teva Pharmaceutical Industries Ltd. and 15 other well-known multi-national pharmaceutical enterprises from India, Canada and Spain. Having passed these audits, the Group is exploring collaborative opportunities with these distinguished companies.

Production and Quality Management

During the year, the Group continued to improve quality control at its production system. The Group enhanced the national quality standards and cost efficiency of several of its key products. Another of its subsidiaries responsible for production was granted "High and New Technology Enterprise" status as a result of a promoted level of technology.

- The Group has filed the application to upgrade the national quality standards of Oudimei, Yuanzhijiu and Yeduojia, which is governed by the Chinese Pharmacopoeia Commission. The Group has also completed the drug safety review and national quality standard upgrade of Danshen Chuanxiongqin injection. The new national quality Standard of this product is already being implemented.

- Langfang Gaobo Jingband was granted "High and New Technology Enterprise" status in 2012, which will entitle them to a preferential tax rate of 15%.

- Despite higher labour and raw material costs across the country, the Group managed to lower the production costs of numerous products, due to economies of scale and improved cost efficiency.

- In compliance with the new Good Manufacturing Practice ("GMP") standard, the Group has commenced upgrades of its production base in Beijing, Jilin and Liaoning. The upgrades are progressing well and are estimated to be completed by the end of 2013.

(II) FUTURE PROSPECTS

(i) Industry Outlook

In 2013, the development of the Chinese pharmaceutical market will continue to be driven by the expanding national medical insurance coverage, the rising per capita subsidy standard for medical insurance and the increasing maximum reimbursements ratio for medical treatment, not to mention the accelerated pace of urbanization and the aging population in the country.

The Chinese government has designated the bio-pharmaceutical industry as one of the country's strategic emerging industries in its "12th Five-Year Development Plan", demonstrating its support for innovation and the enhancement of the pharmaceutical industry. This will in turn benefit companies with strong capabilities in R&D, production and sales and marketing with focus on innovative and proprietary drugs.

However, various medical reform measures, including the separation of dispensing and prescribing drugs, control of total medical insurance spending at the individual hospital level, and change of payment of medical insurance, will continue to challenge the sales and marketing models and product strategies of pharmaceutical companies. These challenges, along with the new GMP standard, are intensifying industry consolidation.

(ii) Growth Strategies

With its leading position in the market and strong ability to adapt to the evolving operating environment, the Group is confident of turning challenges into opportunities in the years to come. In 2013, the Group will continue to strengthen its capabilities in sales and marketing, invest substantially in R&D and diversify its product portfolio. The Group's clear and focused growth strategies are outlined below:

1) *Two pronged sales and marketing strategy*

The Group will continue its two-pronged strategy of promoting its established and promising products.

- On the back of rising demand from wider medical insurance coverage in the country, the Group will deepen penetration of its established products in first- and second-tier cities while developing third- and fourth-tier cities.

- For its fast-growing promising products, the Group will speed up market expansion by enhancing academic promotion, to raise brand awareness and boost subsequent clinical use to maintain an above-market growth rate. The Group will strive to secure tenders for the development of new markets.

2) *Diversification of product portfolio through R&D and product collaborations*

The Group will continue to enrich its product portfolio through R&D, acquisitions and product collaboration with focus on exclusive and proprietary products in major therapeutic areas.

As for R&D, the Group will optimize return on its investment in R&D through higher incentives and improvements in project management, especially in key projects, to shorten the time-to-market cycle and strengthen its overall R&D capabilities. The Group's continuous dedication to developing innovative drug development is starting to bear fruit. In the beginning of 2013, it received. Approval for Clinical Studies for two more in-house developed Category I innovative drugs, making it four in total to date:

- In January 2013, Benapenem (百納培南), a Category 1.1 innovative drug, received the Approval for Clinical Studies from the SFDA. Phase I of clinical studies are set to begin in 2013. The product has been patented in China and the United States. The product is a carbapenem drug, being a class of broad spectrum β-lactam antibiotics which are widely used to treat multiple drug resistance in hospitals.

- In February 2013, Imigliptin Dihydrochloride (鹽酸依格列汀), a Category 1.1 innovative drug, received the Approval for Clinical Studies from the SFDA. Phase I of clinical studies are set to begin in 2013. The product is DPP-4 inhibitor class of oral hypoglycemic agents, a drug with a brand new structure for treating type II diabetes.

Meanwhile, the Group will continue to explore opportunities for product collaboration and M&A, especially with international pharmaceutical companies, and will exercise flexibility in collaborations.

(iii) **Outlook**

The year 2012 has been the most challenging year thus far for the Group. In view of this, the Group sustained its growth momentum by revamping its internal management system and with the integration of its sales and marketing systems. As a result, the Group has successfully established a more balanced and diversified product portfolio and strengthened its R&D and sales and marketing capabilities, paving the way for the Group's sustainable growth in the coming years. With its leading market position, proven sales and marketing strategy and innovation capability, the Group is confident that it is poised to grasp opportunities rising from developing pharmaceutical industry, and will continue to deliver satisfactory performance in the future.

(III) FINANCIAL REVIEW

Turnover

In 2012, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. Total revenue increased by 35.7% from RMB2,242.1 million in 2011 to RMB3,042.5 million in 2012. The increase in revenue was mainly attributable to growth in sales of CCV drugs.

Revenue from sales of CCV drugs in 2012 amounted to approximately RMB2,803.9 million, representing approximately 38.8% of growth over 2011 and accounted for approximately 92.2% of the Group's turnover. The increase was primarily due to the broadened revenue base from a further diversified product portfolio, as a result of the Group's two-pronged sales and marketing strategy to boost both its established and promising products.

As a result of stricter control on their clinical use, revenue derived from anti-infective drugs decreased by approxmiately 31.2% from RMB86.8 million in 2011 to RMB59.7 million in 2012, accounted for approximately 2.0% of the Group's total revenue. In view of that, the Group stepped up its efforts in the promotion of other drugs, such as central nervous system, respiratory and metabolism drugs. Revenue from sales of other drugs grew by approximately 24.6% to RMB156.2 million, accounted for approximately 5.1% of the Group's total revenue.

Cost of sales

Cost of sales of the Group during the year amounted to approximately RMB753.1 million, accounted for approximately 24.8% of total revenue.

Gross profit

Our gross profit increased by 33.5% from RMB1,714.5 million in 2011 to RMB2,289.4 million in 2012. Overall gross profit margin slightly declined to 75.2% in 2012 from 76.5% in 2011, which was mainly due to the stronger sales of lower margin products in 2012.

Other gains — net

Other net gains increased from RMB108.5 million in 2011 to RMB271.4 million in 2012. This was mainly due to an increase in government grants received by the Group.

Distribution costs

Distribution costs increased 107.8% over 2011 to RMB1,312.3 million in 2012. The increase resulted from a change in the Group's marketing strategy for its products in line with common industry practices which is reflective of marketing costs from third party service providers.

Administrative expenses

Administrative expenses increased by 2.8% from RMB201.1 million in 2011 to RMB206.6 million in 2012. The increase was mainly due to an increase in administrative expenses related to the operational expansion of the Group, especially in the area of construction.

Net finance income

Net finance income increased from RMB54.5 million in 2011 to RMB124.1 million in 2012. The increase was mainly due to increase in interest income received by the Group.

Profit before income tax

Based on the above factors, the Group's profit before income tax increased by 11.6% from RMB1,044.9 million in 2011 to RMB1,165.5 million in 2012.

Income tax expenses

Our income tax expenses slightly decreased by RMB0.8 million from RMB244.8 million in 2011 to RMB244.0 million in 2012.

Profit for the year

Based on the above factors, the Group's net profit increased by 15.2% from RMB800.0 million in 2011 to RMB921.5 million in 2012.

Non-controlling interests

Losses of non-controlling interests in 2011 amounted to RMB24.0 million, while it recorded an earning of RMB17.1 million in 2012, which was mainly due to the profit earned from non-wholly owned subsidiaries during the year.

Profit attributable to owners of the Company

Profit or net profit attributable to our owners increased by 9.8% from RMB824.0 million in 2011 to RMB904.4 million in 2012.

Liquidity and financial resources

As at 31 December 2012, the Group's cash and cash equivalents amounted to RMB1,543.9 million (31 December 2011: RMB3,153.2 million); and fixed deposits with maturities of more than 3 months was RMB898.6 million (31 December 2011: Nil); saleable financial assets amounted to RMB717.9 million (31 December 2011: RMB780.1 million).

The Group generally deposits our excess cash in interest-bearing bank accounts and current accounts. The Group may also invest our excess cash in short terms investments in order to obtain a better return from our excess cash. In this connection, members of the Group entered into agreements with certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC for the investment of its excess cash. During the year, members of the Group have, pursuant to such agreements, invested a total principal amount of RMB716.9 million. The investments made by the Group under the agreements were short-term investments, mainly the financial planning products purchased from certain PRC State-owned banks and reputable international financial institutions outside of PRC. For the said financial planning products, the banks, as the issuers of the financial planning products, have the discretion to invest the funds from the Group in instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. The principal amount of the investments of RMB716.9 million together with the interest received of approximately RMB1.0 million, resulting in a total amount of approximately RMB717.9 million were recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2012. As at the date of this announcement, investments with a total principal amount of RMB708.0 million have already been disposed of/repaid.

Save as disclosed below, the Group did not have other liabilities and bank loans, as a result of which, its gearing ratio (net debt to equity attributable to owners of the Group plus net debt) is 9.8%.

The Group has sufficient cash as at 31 December 2012. The Directors are of the opinion that the Group does not have significant capital risk.

	As at 31 December	
	2012	**2011**
	RMB'000	*RMB'000*
Cash and cash equivalents	1,543,907	3,153,154
Less: Borrowings (Note 8)	(773,114)	(5,880)
	770,793	3,147,274

Trade and other receivables

The Group's trade receivables consist of the credit sales of its products to be paid by its distributors. The Group's other receivables consist of prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables increased by RMB204.5 million from RMB718.8 million as at 31 December 2011 to RMB923.3 million as at 31 December 2012. The increase in trade and other receivables was mainly due to the increases in credit sales and other receivables, along with the increase in sales.

Inventory

Our inventory as at 31 December 2012 amounted to RMB91.5 million (31 December 2011: RMB57.7 million). In 2012, the inventory turnover days of our finished products was 18.4 days (31 December 2011: 17.9 days). We had no inventory impairments in 2012.

Property, plant and equipment

Our property, plant and equipment consist of buildings, production and electronic equipment, office equipment, motor vehicles and construction in progress. As at 31 December 2012, the net book value of our property, plant and equipment amounted to RMB924.1 million, representing an increase of RMB504.8 million, or approximately 120.4%, as compared with the previous year. The increase was mainly attributable to the expanding 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 acquisitions of our subsidiaries. The deferred development costs and product development in progress mainly represent the acquisitions of certain pharmaceutical R&D projects from external research institutions and its in-house developed R&D projects. As at 31 December 2012, net intangible assets amounted to RMB3,735.0 million (31 December 2011: RMB3,080.1 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, other payables, accrued expenses and amounts due to Directors. As at 31 December 2012, trade and other payables amounted to RMB867.4 million, representing a decrease of RMB672.9 million as compared with 31 December 2011. The decrease was mainly due to the payment of remaining balance made for the acquisitions of subsidiaries in 2011.

Contingent liabilities and guarantees

As at 31 December 2012, the Group had no material contingent liabilities or guarantees.

Off-balance sheet arrangements and commitments

As at 31 December 2012, apart from the contingent liabilities disclosed, the Group has not entered into any off-balance sheet arrangements or commitments to provide guarantees for any payment liabilities of any 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 the Group or that engage in the provision of leasing, hedging or research and development services to us.

Capital commitment

As of 31 December 2012, the Group had a total capital commitment of RMB495.8 million, mainly set aside to acquire property, plant and equipment and intangible assets.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss for us. 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 and cash equivalents, short-term bank deposits, 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 the agreement of the related 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.

With respect to available-for-sale financial assets, the Group invests in 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.

The Group also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of groups of trade receivables bearing similar credit risks based on historical data and cash collection history.

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

Foreign exchange risk

The functional currency of the Company and its subsidiaries is Renminbi ("RMB"). All of the revenues of the Group are derived from operations in the PRC. 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 2012, the equivalent of approximately RMB657.0 million and RMB47.1 million of the Group's outstanding borrowings were denominated in Hong Kong Dollar and US Dollar, of which the foreign exchange risk has been set off with steadily appreciation of RMB against Hong Kong Dollar over years.

For the year ended 31 December 2012, 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 2012, our capital expenditures amounted to RMB820.2 million, of which RMB529.2 million was spent on property, plant and equipment, RMB185.4 million was spent on purchasing and self-developed intangible assets and the remaining RMB105.5 million was spent on land use rights.

Material acquisition and disposal

During the year of 2012, the Group acquired the remaining 40% equity interest of Xuanzhu Pharma at the consideration of approximately RMB77.2 million and also acquired 30% equity interest in Orion TC Holdings Limited at a consideration of approximately US$7.5 million. The considerations of the acquisitions above were determined after arm's length negotiation and are on normal commercial terms.

Pledge of assets

As at 31 December 2012, none of our assets was pledged.

Human Resources and Remuneration of Employees

Human resource is an indispensable asset 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 them to work towards enhancing the value of our Company and promoting the long-term growth of our Company.

As at 31 December 2012, the Group had 2,149 employees. For the year ended 31 December 2012, total salary and related costs of the Group were RMB122.7 million (2011: RMB95.6 million).

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During 2012, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) 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.

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

Neither the Company nor any of its subsidiaries had purchased, sold on redeemed any of the Company's listed securities during the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions of Code on Corporate Governance Practices (for the period from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (for the period from 1 April 2012 to 31 December 2012) (the "Code"), as set out in Appendix 14 to the Listing Rules throughout the year 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.

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 as its own code of conduct for securities transactions by the Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2012.

AUDIT COMMITTEE

The Company established the audit committee with written terms of reference in compliance with the requirements of Rule 3.21 of the Listing Rules and the Code, as set out in Appendix 14 to the Listing Rules. 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 (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen), 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 elaborate on the work performed by audit committee to the Board.

The annual results of the Group for the year ended 31 December 2012 have been reviewed by the audit committee.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in compliance with the Code. The primary duties of the nomination committee include, among others, reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and making recommendation 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 (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen). Mr. Xu Kangsen was appointed as the chairman of the nomination committee on 19 March 2012.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference in compliance with the Code. The primary duties of the remuneration committee are, amongst others, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. As at the date of this announcement, the remuneration committee consists of an executive Director (Dr. Che Fengsheng) and three independent non-executive Directors, (Messrs Patrick Sun, Bai Huiliang and Xu Kangsen). Mr. Bai Huiliang was appointed as the chairman of the remuneration committee on 19 March 2012.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "Annual General Meeting") be held on 31 May 2013. 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 of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 27 May 2013 to 31 May 2013 (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, Computershare Hong Kong Investor Services Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on 24 May 2013.

DIVIDENDS

The Board is confident in the ongoing cash generation of the Group, and recommended the payment of a final dividend of RMB5.8 cents per share for the year ended 31 December 2012. Together with interim dividend of RMB3.1 cents per share, the total dividend for the year ended 31 December 2012 will be RMB8.9 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 6 June 2013 to 13 June 2013 (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, Computershare Hong Kong Investor Services Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 5 June 2013. The final dividend is subject to the approval of shareholders at the Annual General Meeting, will be payable on 21 June 2013 to shareholders on the register of members of the Company on 13 June 2013.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2012 will be dispatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 25 March 2013

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.