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四环医药
SihuanPharm

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

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board (the "Board") of directors (the "Directors") of Sihuan Pharmaceutical Holdings Group Ltd. ("Sihuan Pharmaceutical" or 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 2014 (the "Period") together with the comparative figures for the six months ended 30 June 2013.

INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	**2013**	**Change**
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue*	2,000,038	2,324,747	-14.0%
Gross profit	1,596,023	1,847,116	-13.6%
Operating profit	957,794	644,817	48.5%
Profit before income tax	1,007,721	699,516	44.1%
Profit attributable to owners of the Company	830,133	617,535	34.4%
Key Financial Indicators			
Gross profit margin	79.8%	79.5%	
Net profit margin	41.5%	26.6%	
Earnings per share - Basic (RMB cents)	8.011	5.966	
Receivable Turnover (days)	72	50	
Inventory Turnover (days)	51	42	
Interim dividend per share (RMB cents)	1.3	4.3	

* Revenue decreased due to the change in sales strategy for several key products (details of which are set out to section headed "MANAGEMENT DISCUSSION AND ANALYSIS").

- Revenue of the Group decreased by 14.0% to approximately RMB2,000.0 million (for the six months ended 30 June 2013: approximately RMB2,324.7 million).

- Gross profit margin slightly increased to 79.8% (for the six months ended 30 June 2013: 79.5%) due to faster growth of higher-margin products.

- Profit before income tax of the Company increased by 44.1% to approximately RMB1,007.7 million (for the six months ended 30 June 2013: approximately RMB699.5 million).

- Profit attributable to owners of the Company increased by 34.4% to approximately RMB830.1 million (for the six months ended 30 June 2013: approximately RMB617.5 million).

- Basic earnings per share increased to approximately RMB8.011 cents (for the six months ended 30 June 2013: approximately RMB5.966 cents).

- An interim dividend of RMB1.3 cents per share was declared by the Board.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2014** *RMB'000* Unaudited	**31 December 2013** *RMB'000* Audited
Assets			
Non-current assets			
Property, plant and equipment	4	1,540,108	1,441,677
Investment properties	4	33,548	34,437
Intangible assets	4	2,844,067	2,880,622
Land use rights	4	347,886	337,998
Investment accounted for using the equity method	7	33,280	34,069
Deferred income tax assets		103,215	119,939
Other non-current assets	5	367,042	—
		5,269,146	4,848,742
Current assets			
Inventories		129,314	101,283
Trade and other receivables	6	1,477,014	1,398,041
Available-for-sale financial assets		902,709	776,074
Term deposits with initial term of over three months		—	233,651
Cash and cash equivalents		1,425,347	1,508,076
		3,934,384	4,017,125
Asset of disposal group classified as held for sale	12	1,229,241	1,145,781
		5,163,625	5,162,906
Total assets		10,432,771	10,011,648

	Note	30 June 2014	31 December 2013
		RMB'000	*RMB'000*
		Unaudited	Audited
Equity			
Equity attributable to owners of the company			
Share capital		85,610	44,419
Share premium		5,574,848	5,573,951
Other reserves		70,060	89,329
Retained earnings			
- Proposed dividends		134,734	108,824
- Others		2,758,620	2,065,782
		8,623,872	7,882,305
Non-controlling interests		103,140	115,485
Total equity		8,727,012	7,997,790
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		135,626	140,862
Other non-current liabilities		57,385	63,227
Borrowings		—	5,880
		193,011	209,969
Current liabilities			
Trade and other payables	9	1,020,010	1,253,107
Borrowings		—	180,800
Current income tax liabilities		182,669	129,770
Other current liabilities		22,146	—
		1,224,825	1,563,677
Liabilities of disposal group classified as held for sale	12	287,923	240,212
		1,512,748	1,803,889
Total liabilities		1,705,759	2,013,858
Total equity and liabilities		10,432,771	10,011,648
Net current assets		3,650,877	3,359,017
Total assets less current liabilities		8,920,023	8,207,759

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	**2014**	**2013**
		RMB'000	*RMB'000*
		Unaudited	Unaudited
Revenue	3	2,000,038	2,324,747
Cost of sales		(404,015)	(477,631)
Gross profit		1,596,023	1,847,116
Other income	10	13,010	7,873
Other gains — net	10	226,044	147,245
Distribution costs		(694,278)	(1,229,015)
Administrative expenses		(183,005)	(128,402)
Operating profit	10	957,794	644,817
Finance income		59,358	63,821
Finance costs		(8,642)	(5,439)
Finance income — net		50,716	58,382
Share of loss of investment accounted for using the equity method	7	(789)	(3,620)
Loss on dilution of interest in an associate	7	—	(63)
Profit before income tax		1,007,721	699,516
Income tax expense	11	(175,184)	(79,364)
Profit for the period		832,537	620,152
Profit attributable to:			
Owners of the company		830,133	617,535
Non-controlling interests		2,404	2,617
		832,537	620,152

	Note	Six months ended 30 June 2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
Earnings per share attributable to owners of the Company			
- Basic and diluted earnings per share (RMB cents)	14	8.011	5.966
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Disposal of available-for-sale financial assets		(2,074)	(1,021)
Changes in value of available-for-sale financial assets, net of tax		5,219	2,512
Other comprehensive income for the period, net of tax		3,145	1,491
Total comprehensive income for the period		835,682	621,643
Total comprehensive income attributable to:			
Owners of the Company		833,278	619,026
Non-controlling interests		2,404	2,617
		835,682	621,643
Dividends	15	134,734	222,526

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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*
Unaudited							
Balance as at 1 January 2014	44,419	5,573,951	89,329	2,174,606	7,882,305	115,485	7,997,790
Comprehensive income							
Profit for the period	—	—	—	830,133	830,133	2,404	832,537
Other comprehensive income							
Disposal of available-for-sale financial assets	—	—	(2,074)	—	(2,074)	—	(2,074)
Changes in value of available-for-sale financial assets, net of tax	—	—	5,219	—	5,219	—	5,219
Total other comprehensive income, net of tax	—	—	3,145	—	3,145	—	3,145
Total comprehensive income for the period ended 30 June 2014	—	—	3,145	830,133	833,278	2,404	835,682
Transactions with owners							
Issuance of ordinary shares	56	42,032	—	—	42,088	—	42,088
Bonus issue of ordinary shares	41,135	(41,135)	—	—	—	—	—
Changes in ownership interests in subsidiaries without change of control (Note 13)	—	—	(38,823)	—	(38,823)	(14,749)	(53,572)
Dividends	—	—	—	(108,824)	(108,824)	—	(108,824)
Employees share award scheme:							
— value of employee services	—	—	13,848	—	13,848	—	13,848
Transfer to PRC statuary reserve fund	—	—	2,561	(2,561)	—	—	—
Balance as at 30 June 2014	85,610	5,574,848	70,060	2,893,354	8,623,872	103,140	8,727,012

	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*
Unaudited							
Balance as at 1 January 2013	44,419	5,573,951	65,256	1,400,702	7,084,328	102,927	7,187,255
Comprehensive income							
Profit for the period	—	—	—	617,535	617,535	2,617	620,152
Other comprehensive income							
Disposal of available-for-sale financial assets	—	—	(1,021)	—	(1,021)	—	(1,021)
Changes in value of available-for-sale financial assets, net of tax	—	—	2,512	—	2,512	—	2,512
Total other comprehensive income, net of tax	—	—	1,491	—	1,491	—	1,491
Total comprehensive income for the period ended 30 June 2013	—	—	1,491	617,535	619,026	2,617	621,643
Transactions with owners							
Non-controlling interests arising on a newly established subsidiary	—	—	—	—	—	4,547	4,547
Dividends	—	—	—	(300,151)	(300,151)	—	(300,151)
Employees share award scheme:							
— value of employee services	—	—	1,129	—	1,129	—	1,129
Balance as at 30 June 2013	44,419	5,573,951	67,876	1,718,086	7,404,332	110,091	7,514,423

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2014	**2013**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Net cash generated from operating activities	514,105	556,823
Net cash used in investing activities	(265,102)	(199,013)
Net cash used in financing activities	(306,828)	(541,812)
Net decrease in cash and cash equivalents	(57,825)	(184,002)
Cash and cash equivalents at beginning of period*	1,515,427	1,543,907
Cash and cash equivalents at end of period*	1,457,602	1,359,905

* Comprise cash and cash equivalents in assets of the disposal group.

Notes to the Condensed Interim Financial Information for the six months ended 30 June 2014

1. BASIS OF PREPARATION

This condensed interim financial information for the Period has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting'. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standard ("IFRS").

1.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its operating activities, the Board of executive directors of the Company considers that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore adopts the going concern basis in preparing this condensed consolidated interim financial information.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies and method of computation used in the preparation of the interim financial information are consistent with those used in the 2013 financial statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profits.

The following amendments to standards and interpretation adopted by the Group, which are mandatory for the financial year of the Group beginning from 1 January 2014, have no material impact on the Group's interim financial information.

- Amendment to IAS 32, 'Financial instruments: Presentation' on asset and liability offsetting. This amendment relates to the application guidance in IAS 32, 'Financial Instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement' on novation of derivatives. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendments to IFRS 10, 12 and IAS 27, on consolidation for investment entities. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet the definition of an 'investment entity' and which display particular characteristics. Changes have also been made in accordance with provisions under IFRS 12 for disclosures that an investment entity needs to make.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to payment of a levy and when should a liability be recognised.

3. SEGMENT INFORMATION

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

The executive directors of the Board of the Company consider the business from a product perspective. The Group has only one business segment, namely the manufacturing and sale of pharmaceutical products in the PRC.

As the executive directors of the Board of the Company review the financial position of the Group as a whole, no segment assets/liabilities were disclosed.

4. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, INTANGIBLE ASSETS AND LAND USE RIGHTS

	Property, plant and equipment	Investment properties	Other intangible assets	Goodwill	Land use rights
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Six months ended 30 June 2014					
Opening net book amount as at 1 January 2014	1,441,677	34,437	653,686	2,226,936	337,998
Additions	135,051	—	17,493	—	17,672
Depreciation and amortisation	(36,620)	(889)	(54,048)	—	(7,784)
Closing net book amount as at 30 June 2014	1,540,108	33,548	617,131	2,226,936	347,886
Six months ended 30 June 2013					
Opening net book amount as at 1 January 2013	924,052	30,894	1,027,595	2,707,435	165,637
Additions	435,744	—	35,404	—	42,519
Depreciation and amortisation	(20,707)	(828)	(72,578)	—	(2,943)
Closing net book amount as at 30 June 2013	1,339,089	30,066	990,421	2,707,435	205,213

5. OTHER NON-CURRENT ASSETS

The amount represented prepayment for purchase of intangible assets, land use rights and property, plant and equipment, which was due in more than one year.

6. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014	As at 31 December 2013
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables — third parties	726,977	867,716
Prepaid value added tax	289,943	103,554
Amount receivable from partial disposal of Jilin Sichang Pharmaceutical Co., Ltd ("Jilin Sichang")[(a)]	171,262	165,572
Prepayments to suppliers	161,281	96,544
Prepaid income tax	27,970	91,944
Other receivables	99,581	72,711
	1,477,014	1,398,041

(a) Amount receivable from partial disposal of a subsidiary represents the consideration not yet received relevant to the partial disposal of Jilin Sichang, which bears an effective interest rate of 8% as at 30 June 2014 (31 December 2013: 8%).

Trade and other receivables do not contain impaired assets and have no fixed repayment term. Except for the amount mentioned above in Note (a), trade and other receivables bear no interest.

The Group's credit terms granted to customers range from one month to one year. As at 30 June 2014, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Receivables		
Within 3 months	438,488	632,298
3 to 6 months	129,789	105,537
6 to 12 months	149,422	129,420
More than 12 months	9,278	461
	726,977	867,716

7. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	2014	2013
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Opening balance at 1 January	34,069	40,962
Share of post-tax operating loss of an associate	(789)	(3,620)
Loss on dilution of interest in an associate	—	(63)
Closing balance at 30 June	33,280	37,279

8. SHARE-BASED PAYMENT

(i) Share award scheme

An award scheme for the purpose of incentivising the management of the Group (the "Employee Share Award Scheme") has been adopted by certain shareholders of the Company (namely, Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng) on 25 October 2010. On 25 January 2013, another shareholder of the Company (namely, MSPEA Pharma Holdings B.V.) also participated in the Employee Share Award Scheme. Trustee Co (a private trust company established in the British Virgin Islands and wholly-owned by Plenty Gold) has been appointed as the trustee to hold the reserved Shares under the Employee Share Award Scheme. Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng, as settlors of a trust, have reserved and set aside a total of 33,750,000 shares; and MSPEA Pharma Holdings B.V. has reserved and set aside an additional 3,750,000 shares, all of which are being held by the Trustee Co as trustee for the Employee Share Award Scheme. The Employee Share Award Scheme involves granting of existing shares held by the Trustee Co and no new shares will be issued pursuant to the Employee Share Award Scheme.

As disclosed in the Company's announcement dated 16 June 2014, a bonus issue (the "Bonus Issue") was made on the basis of one bonus Share for every one Share held on the record date, i.e. Friday, 13 June 2014. As a result of the Bonus Issue, adjustments have been made to the number of outstanding share options granted under the Employee Share Award Scheme.

As of six months ended 30 June 2014, a total of 95 employees have exercised their Awards granted under the Employee Share Award Scheme involving 4,950,337 Shares (after taking into account the adjustments made pursuant to the Bonus Issue mentioned above).

(ii) **Share awards movement**

Summary of the share awards which have been granted to certain employees of the Group is as follows:

Grant date	Exercise price in HK$ per share award	Number of awards granted (in thousands)
20 March 2012	3.19	14,150
27 September 2013	3.19	19,750
21 October 2013	0.70	2,050
		35,950

Movements in the number of share awards outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in HK$ per share award	Awards (in thousands) 2014	2013
Employees			
At 1 January	3.19	25,100	7,484
At 1 January	0.70	2,050	—
Exercised	3.19	(4,950)	(1,134)
Exercised	0.70	—	—
Bonus issue	3.19	20,150	—
Bonus issue	0.70	2,050	—
At 30 June		44,400	6,350

(a) With the approval of the Company's shareholders at the annual general meeting of the Company held on 30 May 2014, a bonus issue of share (the "Bonus Issue") was made on the basis of 1 bonus share (the "Bonus Share") for every 1 share held by the Shareholders whose names appeared on the register of members of the Company on 13 June 2014 (the "Bonus Issue Record Date"). Under the rules of the Employee Share Award Scheme of the Company adopted by Plenty Gold Enterprises Limited, Dr. Che Fengsheng and Dr. Guo Weicheng on 25 October 2010, as a result of the Bonus Issue, adjustment was made to the number of Shares subject to the share option (the "Outstanding Options") granted by the Company pursuant to the Employee Share Award Scheme which remained outstanding as at 20 June 2014, the date of completion of the Bonus Issue. In accordance with the rules of the Employee Share Award Scheme, the Board approved, a bonus issue of 1 share award for every 1 Outstanding Option which remained outstanding as at 20 June 2014.

The related weighted average market price at the time of exercise was HK$8.37 per share.

Share awards outstanding as at 30 June 2014 have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK$ per share award	Number of awards vested (in thousands) 2014	2013
21 March 2017	3.19	4,168	6,350
26 September 2018	0.70	4,100	—
26 September 2018	3.19	36,132	—
		44,400	5,900

9. TRADE AND OTHER PAYABLES

	As at 30 June 2014	As at 31 December 2013
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade payables	69,939	36,555
Accrued marketing service fee	233,341	395,335
Deferred gain on partial disposal of Jilin Sichang	193,590	193,590
Advances from customers	158,372	229,969
Deposit payables	100,235	74,664
Amount payable regarding land use right	47,970	47,970
Accrued performance bonus to directors	24,800	51,200
Advance of compensation from government for demolition of existing premise	23,424	36,638
Value added tax payables	9,653	34,594
Other payables	158,686	152,592
	1,020,010	1,253,107

At 30 June 2014, the ageing analysis of the trade payables based on invoice date were as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade Payables		
Within 6 months	52,409	29,287
6 to 12 months	10,262	1,203
More than 1 year	7,268	6,065
	69,939	36,555

10. OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is given below.

	Six months ended 30 June	
	2014	**2013**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sale of distribution right	11,073	6,542
Rental income	1,937	1,331
Other income	13,010	7,873
Government grants	224,154	151,333
Gain on disposal of available-for-sale financial assets	2,074	1,021
Processing fee income	—	1,297
Others	(184)	(6,406)
Other gains - net	226,044	147,245
Marketing expense	637,078	1,161,706
Depreciation and amortization	99,341	97,056
Research and development expense	43,496	31,105

11. INCOME TAX EXPENSE

The income tax expense of the Group for the Period is analysed as follows:

	Six months ended 30 June	
	2014	**2013**
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current tax:		
Current tax on profits for the period	163,696	121,598
Reversal of over provision[(a)]	—	(122,751)
Total current tax	163,696	(1,153)
Deferred tax:		
Origination and reversal of temporary differences	11,488	(1,080)
Effect on tax rate change[(a)]	—	81,597
Total deferred tax	11,488	80,517
Income tax expense	175,184	79,364

Income tax expense is recognised based on management's estimate of weighted average annual income tax rate expected for the full financial year.

(a) The amounts represent the impact of change in PRC corporate income tax for one of the Group's subsidiaries, Tonghua Jida Pharmaceutical Co., Ltd., after the completion of the registration of high-tech enterprises preference tax rate at 15% with the tax bureau in May 2013 before the PRC 2012 annual tax filing due date.

(b) Income tax expense

(i) Bermuda profits tax

The Group has not been subject to any taxation in Bermuda for the Period (2013: nil).

(ii) Hong Kong profits tax

The Company has not been subject to Hong Kong profits tax as the Group had no assessable profit arising in Hong Kong for the Period (2013: nil).

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

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

The PRC subsidiaries of the Group have determined and paid corporate income tax in accordance with the Corporate Income Tax Law of the PRC at a tax rate of 25%.

Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2014 was provided at a preferential tax rate of 15%.

(iv) 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%.

12. DISPOSAL GROUP HELD-FOR-SALE

In July 2011, the Group entered into an agreement with an independent third party, Shandong Buchang Pharmaceutical Co., Ltd. ("Shandong Buchang") (the "Agreement"). Pursuant to the Agreement, Shandong Buchang will conditionally purchase 50% equity interest in Jilin Sichang for a cash consideration of RMB637,500,000. The transfer of equity interest will be completed by 2 steps, which represent 19% ("First Disposal") and 31% ("Second Disposal") equity interest of Jilin Sichang respectively. After completion of the 50% transfer of equity interest, Jilin Sichang will be jointly controlled by the Group and Shandong Buchang. In November 2011, a 19% equity interest of Jilin Sichang had been transferred at a cash consideration of RMB242,250,000, of which an amount of RMB100,000,000 has been received in 2011. The difference between the consideration of the 19% equity interest and value of the equity interest amounting to RMB193,590,000 was recorded as deferred gain.

The Group and Shandong Buchang mutually agreed in 2013 to extend the Second Disposal to an earlier date between 31 December 2014 and the 60th business day after Shandong Buchang consummate the initial public offering in the PRC. The executive directors of the Board of the Company are of the opinion that the Second Disposal will be completed within 6 months as at 30 June 2014. Accordingly, the deferred gain was reclassified as current liability and the assets and liabilities of Jilin Sichang were presented as held for sale at 30 June 2014.

The major classes of assets and liabilities of the disposal group held-for-sale are as follows:

	As at 30 June 2014 *RMB'000* Unaudited
Assets classified as held for sale:	
Intangible assets	752,233
Property, plant and equipment	314,840
Inventories	8,546
Land use rights	77,170
Cash and cash equivalents	32,255
Other assets	44,197
Total assets of the disposal group held-for-sale	1,229,241
Liabilities directly associated with assets classified as held for sale:	
Trade and other payables	222,732
Deferred income tax liabilities	65,191
Total liabilities of the disposal group held-for-sale	287,923
Total net assets of the disposal group held-for-sale	941,318

13. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

On 1 January 2014, the Company acquired an additional 49% of equity interest of Langfang Gaobo Jingband Pharmaceutical Co., Ltd. ("Langfang Gaobo Jingband") for a purchase consideration of RMB53,572,000. The carrying amount of the non-controlling interests in Langfang Gaobo Jingband on the date of acquisition was RMB14,749,000. The Group recognised a decrease in non-controlling interests of RMB14,749,000 and a decrease in equity attributable to owners of the Company of RMB38,823,000. The effect of changes in the ownership interest of Langfang Gaobo Jingband on the equity attributable to owners of the Company during the Period is summarised as follows:

	Six months ended 30 June 2014 *RMB'000* Unaudited
Carrying amount of non-controlling interests acquired	14,749
Consideration paid to non-controlling interests	53,572
Excess of consideration paid recognised within equity	38,823

14. 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 issue for the Period.

	Six months ended 30 June	
	2014	**2013**
	Unaudited	Unaudited
Profit attributable to owners of the Company (RMB'000)	830,133	617,535
Weighted average number of ordinary shares in issue for basic earnings per share ('000)*	10,362,542	10,350,048
Basic earnings per share (RMB cents per share)	8.011	5.966

* The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2013 and 2014 have been retrospectively adjusted for the effect of the bonus issue of the Company on 20 June 2014.

(b) ***Diluted***

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

15. DIVIDENDS

Final dividend of RMB108,824,000 in respect of the year ended 31 December 2013 with a bonus issue of one bonus ordinary share at par value of HK$0.01 each of every 1 ordinary share held on the record date, i.e. Friday, 13 June 2014 were paid in June 2014.

An interim dividend of RMB1.3 cents per share (for the six months ended 30 June 2013: RMB4.3 cents) was declared by the Board on 27 August 2014. It is payable on or around 24 September 2014 to shareholders who are on the register of members on 16 September 2014. The interim dividend which amounted to RMB134,734,000 has not been recognised as a liability in this interim financial information. It will be recognised in the consolidated financial statements for the year ending 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Following a year of strong growth in 2013, the Group sustained sound growth momentum in the first half of 2014, with profit attributable to owners of the Company increasing by 34.4% year-on-year. Sales volume of the Group's key products recorded impressive growth compared with the same period last year, while revenue decreased by 14.0% year-on-year, principally caused by a change in sales strategy which resulted in a downward adjustment in the ex-factory price of Yuanzhijiu starting from the second half of 2013 and of Kelinao, Anjieli, Yeduojia and Oudimei in the first half of 2014 compared to the same period last year.

The Group's promising products continued to deliver remarkable growth of sales volume, while the Group's established products recorded steady sales growth. In addition, the Group's research and development of innovative and generic drugs achieved sound progress. During the period under review, the Group continued to optimize its production systems. Overall, the Group has achieved all of its operational targets.

According to IMS Heath Incorporated ("IMS"), the Group maintained its No. 1 position in the cardio-cerebral vascular ("CCV") prescription drug market, with an increased market share of 10.8% in terms of hospital purchase during the period under review. Moreover, the Group was ranked as the third largest pharmaceutical company in the Chinese hospital market during the period under review. The Group's leading position in China's CCV prescription drug market and hospital market was further consolidated.

(i) **Sales of Key Products**

(a) **CCV products**

For the Period, sales of CCV products accounted for approximately 94.0% of the Group's total revenue.

During the period under review, the sales volume of the Group's promising products such as Oudimei(1), Yuanzhijiu(2), Yeduojia, Danshen Chuanxiongqin, Yimaining(3) and Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection grew by over 30% as compared to the corresponding period last year. In particular, Yuanzhijiu, Danshen Chuanxiongqin and Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection recorded sales volume growth of over 50%. Meanwhile, the combined sales volume of established products Kelinao/Anjieli recorded an increase of about 20% year-on-year, while sales of Qingtong rose by 16.1% year-on-year. Sales of Qu'Ao increased slightly by 3.8%, while sales of GM1, Chuanqing and Guhong declined by 7.0%, 17.0% and 79.0% respectively, due to a shortage in product supply caused by the test runs of manufacturing facilities after passing the certification of the new Good Manufacturing Practices ("GMP") standard.

The strong growth of our CCV products reinforced the Group's market leading position in China's CCV prescription drug market.

Sales of key CCV products:

Product Name	For the six months ended 30 June		Change in Sales Year-on-Year	Change in IMS Data (Sales in terms of hospital purchase) Year-on-Year
	2013	**2014**		
	(RMB'000)	*(RMB'000)*		
*Oudimei(1) (Cerebroside- kinin injection)	687,027	655,490	-4.6%	34.7%
*Kelinao (Cinepazide maleate injection) (80 mg)	582,264	377,934	-35.1%	14.3%
*Anjieli (Cinepazide maleate injection) (320 mg)	67,969	88,171	29.7%	
*Yuanzhijiu(2) (Troxerutin and cerebroproptein hydrolysate injection)	202,043	184,403	-8.7%	58.2%
*Yeduojia (Compound trivitamin B for injection (II))	129,435	79,864	-38.3%	53.0%

* Due to the change in sales strategy, there was a downward adjustment in the ex-factory price of the aforementioned products. Meanwhile, there was a significant decrease in distribution costs in conjunction with this change, resulting in their profit contributions being largely the same as their profit contributions had the change in sales strategy not taken place.

Product Name	For the six months ended 30 June		Change in Sales Year-on-Year
	2013	2014	
	(RMB'000)	*(RMB'000)*	
Yimaining[3] (Alprostadil lipid emulsion injection)	92,711	122,467	32.1%
Danshen Chuanxiongqin injection (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	57,121	91,507	60.2%
GM1 (Monosialotetrah exosylganglioside sodium injection)	96,790	90,026	-7.0% (Products supply shortage)
Qu'Ao (Cerebroprotein hydrolysate)	45,849	47,585	3.8% (Products supply shortage)
Chuanqing (Ligustrazine hydrochloride for injection)	48,240	40,061	-17.0% (Products supply shortage)
Qingtong (Edaravone injection)	33,043	38,354	16.1%
Guhong injection (Compound of aceglutamide and safflower extract)	151,180	31,677	-79.0% (Products supply shortage)
Salivae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection	5,296	8,545	61.3%

Notes:

(1) Names of the Group's cerebroside-kinin injection products in different dosages are Oudimei, Oufutai and Waitong, and are collectively known as Oudimei.

(2) Names of the Group's troxeratin and cerebroprotein hydrolysate injection products in different dosages are Yuanzhijiu and Xinwai, and are collectively known as Yuanzhijiu.

(3) Names of the Group's alprostadil lipid emulsion injection products in different dosages are Yimaining and Yikongning, and are collectively known as Yimaining.

(b) Non-cardio-cerebral vascular products ("Non-CCV products")

For the Period, the Group achieved strong performance with the sales of its non-CCV products. All of its major key products achieved sustainable growth.

Sales of antiepileptic drug Ren'Ao (Oxcarbazepine) rose 41.1% year-on-year, while sales of respiratory system drugs Zhuo'Ao and Bi'Ao (Ambroxol hydrochloride) increased by 32.6% and 6.5% year-on-year, respectively, and sales of Luoanming (Amino acid injection) rose 15.5% year-on-year. The market expansion of Roxatidine was hindered by further delay of the tender process for the Period, with tender wins in only 3 provinces and a supplementary tender submission in another province. Sales activities of Roxatidine have since started in these provinces.

Sales of key Non-CCV products:

		For the six months ended 30 June		
		2013	2014	Change in Sales
Therapeutic areas	**Product Name**	*(RMB'000)*	*(RMB'000)*	**Year-on-Year**
Central nervous system drug	Ren'Ao (Oxcarbazepine)	6,325	8,921	41.1%
Metabolism drug	Luoanming (Amino acid injection)	34,792	40,184	15.5%
Respiratory system drug	Bi'Ao (Ambroxol hydrochloride)	26,684	28,415	6.5%
	Zhuo'Ao (Ambroxol hydrochloride)	7,858	10,415	32.6%
Digestive system drug	Roxatidine	—	2,485	—
Anti-infective drug	Clindamycin	—	9,974	—

(ii) Sales and Marketing

For the Period, the key focus of the sales and marketing team was to boost market expansion by making use of all available opportunities. The Group enhanced the market coverage of promising products through provincial tender wins and supplementary tender submissions; meanwhile, the Group furthered the penetration of its established products into low-end markets through their inclusion on provincial Essential Drug Lists ("EDL") and provincial New Rural Cooperative Medical Scheme Lists ("NRCMSL").

Sales of the Group's promising products such as Oudimei, Yuanzhijiu, Yeduojia, Yimaining and Danshen Chuanxiongqin saw significant increases as the Group seized all opportunities for tender wins and supplementary tender submissions. Market coverage of Oudimei and Yuanzhijiu has now expanded to more than 20 provinces, while market coverage of Yeduojia, Yimaining and Guhong has reached over 15 provinces, and the market coverage of Danshen Chuanxiongqin expanded to 8 provinces. The expanded market coverage secured and accelerated the sustainable sales increase of these promising products.

The Group's established products such as Kelinao, Qu'Ao, Chuanqing and Qingtong further developed the low-end markets through their inclusion in provincial EDLs and provincial NRCMSLs. Kelinao and Chuanqing were included in the EDLs of Guangdong Province and the Xinjiang Uighur Autonomous Region. In addition, Kelinao, Chuanqing, Qingtong, GM1 and Yimaining were also included in the EDLs at public medical institutions in Anhui Province, which contain 1,118 essential drugs. Sales of Kelinao and Qingtong achieved solid growth during the Period. Unfortunately, Qu'Ao, GM1 and Chuanqing did not meet their sales targets due to shortages in product supply, but are expected to see improvement in the second half of the year.

For the Period, the Group continued to set up its marketing efforts by organizing various academic promotion activities. The Group conducted clinical studies on its two core products, Kelinao and Oudimei, to further enhance physicians' understanding of the products. The studies, entitled "Mechanism study of cinepazide maleate on brain ischemia injury" (桂哌齊特抗腦缺血損傷機制研究), led by Xijing Hospital (西京醫院), explored the uniqueness of cinepazide maleate (桂哌齊特) as a calcium channel blocker. The paper "Cinepazide maleate protects PC12 cells against oxygen—glucose deprivation injury" (桂哌齊特保護PC12細胞阻止缺氧缺糖損傷) was published in the January 2014 issue of Neurological Sciences. The post-launch drug revaluation of Oudimei — "Clinical Research Studies for Cerebroside-Kinin for Treatment of Ischemic Stroke" (腦苷肌肽對缺血性中風治療的臨床研究) (led by The Third Hospital of Peking University (北京大學第三醫院)) and "Clinical Research Studies for Cerebroside-Kinin for Treatment of Hypertensive Intracerebral Hemorrhage" (腦苷肌肽對高血壓腦出血治療的臨床研究) (led by The General Hospital of People's Liberation Army (中國人民解放軍總醫院)), successfully recruited over 60% of patients. The Group also initiated the "Research Studies on Cerebroside-Kinin for Treatment of Alzheimer's Disease (腦苷肌肽對老年痴呆治療的研究) (led by The General Hospital of People's Liberation Army (中國人民解放軍總醫院)). For newly launched products, the Group focused on providing product training to enhance doctors' knowledge and recognition of these products. As for its established products, the Group stepped up its efforts in organizing major academic conferences and publishing papers in various academic journals (e.g., Chinese Journal of Neurosurgery, Chinese Journal of Neurology, Chinese Journal of Stroke, Chinese Journal of Neuroimmunology and Neurology) to enhance Sihuan Pharmaceutical's brand image so as to boost the clinical use of these established products. For the Period, the Group organized a total of 2,745 academic promotion activities, including 2,665 departmental seminars at hospitals, 73 regional academic conferences and 8 national medical conferences. The Group's brand image was further enhanced through organizing these seminars and conferences.

(iii) Research and Development ("R&D")

The Group's innovative drug R&D division, Shandong Xuanzhu Pharmaceutical Technology Co., Ltd. ("Xuanzhu Pharma"), filed an application for Approval for Clinical Trial of Janagliflozin (加格列淨), a Category 1.1 innovative drug, to the Food and Drug Administration ("CFDA") of China in the first half of 2014, and has received the official acceptance of the application (acceptance number: CXHL1400849 and CXHL1400850). This is the eighth self-developed Category 1.1 innovative drug, for which an application has been successfully filed with the CFDA. Janagliflozin (加格列淨), an SGLT2 (Sodium-glucose co-transporter 2) inhibitor, is an anti-diabetic drug for the treatment of type 2 diabetes. SGLT2 is the sought-after target in diabetes research, and SGLT2 inhibitor is the most internationally recognized new category of anti-diabetic drugs and has huge market potential. Janagliflozin is also the second Category 1.1 innovative drug to be developed by the Group in the anti-diabetes category after Imigliptin Dihydrochloride (鹽酸依格列汀). Meanwhile, Phase I clinical trial of Imigliptin Dihydrochloride (鹽酸依格列汀) progressed as planned with encouraging results from the completed studies. Clinical trials of Anaprazole Sodium (安納拉唑鈉) and Benapenem (百納培南), two other Category 1.1 innovative drugs, also commenced during the Period. Currently, the Group is actively preparing to file an investigational new drug ("IND") application for Pirotinib (哌羅替尼) to the Food and Drug Administration ("FDA") of the United States.

Several new production license applications were filed by the Group's generic drug division, the Beijing Aohe Drug Research Institute, during the period under review. By the end of June 2014, production license applications for a total of 27 generic drugs were filed, including Bisoprolol Fumarate (富馬酸比索洛爾), Losartan Potassium (氯沙坦鉀), Lansoprazole (蘭索拉唑), Esomeprazole (埃索美拉唑), Fasudil Hydrochloride (鹽酸法舒地爾), Octreotide Acetate (醋酸奧曲肽), Vinpocetine (長春西汀), Flurbiprofen Axetil (氟比洛芬酯), Oxiracetam (奧拉西坦), Esomeprazole Sodium (埃索美拉唑鈉), Caspofungin Acetate (醋酸卡泊芬淨) etc.; these products are expected to be launched to the market in the next three years. Also, more than 20 new projects commenced development during the period under review. In total, the Group has over 70 generic drug projects under development, including twenty-two Category 3 new drug projects such as Levetiracetam Injection (左乙拉西坦注射劑), Lacosamide (拉科酰胺), Ornithine Aspartate Injection (Hepa-Merz) (門冬氨酸鳥氨酸注射劑), Rivastigmine Hydrogen Tartrate Capsules (重酒石酸卡巴拉汀膠囊), Caspofungin Acetate for Injection (注射用醋酸卡泊芬淨), Flupirtine Maleate Capsules (馬來酸氟吡汀膠囊), Divalproex sodium Tablets (雙丙戊酸鈉腸溶片), Revaprazan Hydrochloride (鹽酸洛氟普啶), (R)-Lansoprazole (右旋蘭索拉唑).

Phase III clinical trial of L-Phencynonate Hydrochloride (左旋鹽酸苯環壬酯), a Category 1.3 innovative drug, is progressing as planned. Phase II clinical trial of Cinepazide Mesilate (甲磺酸桂哌齊特), a Category IV exclusive new drug, is nearing completion. Collaboration on innovative drug development projects with NeuroVive Pharmaceutical AB of Sweden and to-BBB technologies B.V. of the Netherlands is also moving ahead as planned.

In addition, Xuanzhu Pharma and Beijing Sihuan Pharmaceutical Co., Ltd. have co-applied for Beijing government's G20 Engineering Leading Enterprises Cultiration Project. Imigliptin Dihydrochloride (鹽酸依格列汀) and Anaprazole Sodium (安納拉唑鈉) won the New Chemical Drug Research and Development Award, which included a technology grant of RMB7.42 million.

(iv) Production and Quality Management

The new production system has been running smoothly since the main production facilities received the new GMP certification. As the standard of production and management has been improving steadily, the new production facilities, except Changchun Xiangtong Pharmaceutical Co., Ltd., have been able to meet market demand. All facilities have not encountered any quality-related incidents.

The production facility of the Group's Active Pharmacentical Ingredients ("APIs") business, Langfang Gaobo Jingband Pharmaceutical Co., Ltd ("Langfang Gaobo Jingband"), passed an on-site inspection by the US FDA in July 2013 and received an Establishment Inspection Report ("EIR") from the FDA in the first half of this year. The reputation of Langfang Gaobo Jingband has improved significantly since passing the on-site assessment. The Group has deepened its cooperation with Canada-based Apotex Inc. The Group has also signed a contract worth over RMB10 million with India's Dr. Reddy's Laboratories Ltd. involving the Posaconazole project. Moreover, the Group's collaboration with Italy-based company ZaCh System S.p.A. and Israel-owned company Taro Pharmaceutical Industries Ltd. also commenced as planned.

In spite of rising raw material and labor costs, the Group maintained cost efficiency of its production system by expanding the scale of production and improving the manufacturing process and management.

(II) FUTURE PROSPECTS

(i) Industry Outlook

Fueled by accelerated urbanization and the ageing of China's population, the rigid demand in the domestic pharmaceutical market will continue to grow. Also, the market potential brought by national medical insurance coverage is far from fully realized, which will sustain the growth momentum of the pharmaceutical industry in the long run. On the other hand, the country has been curbing excessive growth of medical expenditures, and the tightening of hospital medical budgets in first tier cities, lowering of provincial tender prices, and the deepening reform of medical institutions will all exert pressure on pharmaceutical enterprises. Moreover, a rising industrial threshold, rising technical standards and stringent regulatory controls will speed up the polarization and consolidation of the pharmaceuticals industry, and quality resources will flow to leading enterprises. With further consolidation and integration in the industry, pharmaceutical companies with comprehensive operational advantages will have more opportunities for their development and for long-term success.

Backed by its outstanding capabilities in sales and marketing, R&D and resource integration, Sihuan Pharmaceutical, a leading Chinese pharmaceutical corporation with a solid business foundation and economies of scale, is poised to capitalize on the trend of industry consolidation and to reap benefits and make progress from the strong governmental support for innovation.

(ii) Growth Strategies

(a) Tapping the potential of existing product resources

The Group's promising products such as Oudimei, Yuanzhijiu, Yeduojia, Danshen Chuanxiongqin and Yimaining still have considerable market potential; newly launched products such as Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液), Roxatidine (羅沙替丁), Breviscapine Sodium Chloride Injection (燈盞花注射劑), together with products such as Clindamycin (克林黴素) and Metronidzole (甲硝唑) that have been included in national EDLs, are products with good market potential.

To support the rapid and sustainable growth in sales of these promising products, the Group will continue to enhance both horizontal expansion by seizing all opportunities for tender wins and supplementary tender submissions and vertical expansion in the more economically developed regions. For the abovementioned products that are either at the earlier stages of market development or were recently launched to the market, the Group will step up its efforts in both academic promotion and market expansion.

Sales of the Group's established products such as Kelinao, Chuanqing, Qu'Ao, and Qingtong is set to achieve sustainable growth from further expansion in the low-end markets through inclusion on more provincial EDLs and provincial NRCMSLs. Meanwhile, the clinical usage of established products has been further expanded by entering into various official medicine usage guidelines.

(b) **Maintaining outstanding sales and marketing capabilities**

The Group will maintain strong sales and marketing capabilities by making prompt adjustments to its marketing strategies and continuing to optimize its marketing network according to changes in the market. In addition, the Group will further step up and optimize its academic promotions. By organizing and participating in various kinds of academic conferences, and by strengthening post-marketing clinical research and proactively participating in relevant research studies by partnering with medical institutions on disease prevention and treatment, we will strive to enhance Sihuan Pharmaceuticals' academic status and expand the market presence and clinical application of the Group's products. Meanwhile, we will enhance professional training and the quality of education of our marketing team and distributors so as to adapt to a changing and developing market.

(c) **Enhancing the pathways for obtaining product resources**

While the Group's innovative and generic drug development platform is a vital source of new products, mergers and acquisitions is another channel for the acquisition of new product resources and collaboration with international companies will be a critical pathway for obtaining high-standard products in the future. The Group produces a steady stream of product resources through these three major channels, in which we will continue to exert unremitting efforts to carry forward the Group's long-term growth momentum.

(iii) Outlook

A rich and diversified product portfolio has sustained and will continue to sustain the remarkable growth of Sihuan Pharmaceutical in 2014 and the next few years. More importantly, the Group has a proven capability of identifying and obtaining new product resources. The management is highly confident in the Group's future development.

The management firmly projects a promising growth trajectory in the second half of 2014 and is confident that the Group will achieve satisfactory full-year results. With an outstanding product pipeline, strong R&D capabilities and proven sales and marketing capabilities, Sihuan Pharmaceutical will effectively navigate challenges, seize opportunities arising from the industry consolidation, further solidify its operational foundation and make strides into a stable stage of development.

FINANCIAL REVIEW

Turnover

For the Period, the Group continued to strengthen its CCV drugs business while promoting sales of its products of other therapeutic areas. A stable growth trend was shown in the sales operations of the Group, but due to adjustment in sales strategies resulting in downward adjustment in ex-factory price of certain products, total revenue for the Period was approximately RMB2,000.0 million, representing a decrease of approximately RMB324.7 million when compared with RMB2,324.7 million for the six months ended 30 June 2013.

For the Period, a stable growth trend was shown in the sales of CCV drugs by the Group, but due to adjustment in sales strategies, sales of CCV drugs for the Period amounted to approximately RMB1,880.8 million, representing a decrease of RMB334.0 million when compared with the six months ended 30 June 2013, which accounted for approximately 94.0% of the Group's total revenue.

Sales of anti-infective drugs decreased by approximately 18.8% from RMB18.5 million for the six months ended 30 June 2013 to RMB15.0 million for the Period, due to stricter restrictions on their clinical use and accounting for approximately 0.8% of the Group's total revenue. In view of that, the Group focused on stepping up its efforts in the promotion of other drugs, such as central nervous system, respiratory and metabolism drugs. Sales of other drugs grew by approximately 16.7% to RMB99.1 million, accounting for approximately 5.0% of the Group's total revenue.

Cost of sales

The Group's cost of sales for the Period amounted to approximately RMB404.0 million, accounting for approximately 20.2% of the total revenue.

Gross profit

Gross profit of RMB1,596.0 million was recorded for the Period, representing a decrease of RMB251.1 million when compared with RMB1,847.1 million for the six months ended 30 June 2013. The main reason was the adjustment in sales strategy resulting in a lower sales amount when compared with the corresponding period of the previous year. Overall gross profit margin increased from 79.5% for the six months ended 30 June 2013 to 79.8% for the Period, which was mainly due to higher contribution from the products with higher gross profit margins.

Other net gains

Other net gains increased from RMB147.2 million for the six months ended 30 June 2013 to RMB226.0 million for the Period. This was mainly due to an increase in government grants received by the Group.

Distribution costs

Distribution costs for the Period decreased by RMB534.7 million to RMB694.3 million when compared with the corresponding period of the previous year. The decrease was mainly due to the adjustment in sales strategies by the Group.

Administrative expenses

Administrative expenses increased by 42.5% from RMB128.4 million for the six months ended 30 June 2013 to RMB183.0 million for the Period. The increase was primarily due to an expansion in the Group's operations and development, resulting in an increase in the relevant administrative expenses and investment in research and development.

Net finance income

Net finance income decreased by 13.1% from RMB58.4 million for the six months ended 30 June 2013 to RMB50.7 million for the Period. The decrease was mainly due to the decrease 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 44.1% from RMB699.5 million for the six months ended 30 June 2013 to RMB1,007.7 million for the Period.

Income tax expenses

The Group's income tax expenses for the Period were approximately RMB175.2 million.

Profit for the Period

Based on the above factors, the Group's net profit increased by 34.3% from RMB620.2 million for the six months ended 30 June 2013 to RMB832.5 million for the Period.

Profit attributable to owners of the Company

Profit or net profit attributable to equity holders of the Company increased by 34.4% from RMB617.5 million for the six months ended 30 June 2013 to RMB830.1 million for the Period.

Liquidity and financial resources

As at 30 June 2014, the Group's cash and cash equivalents amounted to RMB1,425.3 million (as at 31 December 2013: RMB1,508.1 million); no term deposits with maturities of over three months (at as 31 December 2013: RMB233.7 million); available-for-sale financial assets amounted to RMB902.7 million (as at 31 December 2013: RMB776.1 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash for short-term investments in order to obtain better returns. Therefore, the members of the Group entered into agreements with certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC to invest the extra cash. According to such agreements, during the Period, the total amount of investment of the members of the Group amounted to RMB897.5 million. The investments made by the Group according to these agreements were categorized as short-term investments, which mainly consisted of financial planning products purchased from certain state-owned banks and reputable international financial institutions outside of PRC. For the said financial planning products, the issuing banks of such financial planning products may invest the Group's funds at their discretion into financial instruments such as treasury bonds, discounted bank acceptances, commercial acceptance bills and bank deposits. The investment principal of RMB897.5 million plus interest of approximately RMB5.2 million in aggregate amounted to approximately RMB902.7 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 30 June 2014. As at the date of this announcement, total amount of sold/repaid investment principal amounted to RMB454.5 million.

Save as disclosed below, the Group did not have other liabilities and bank loans.

The Group has sufficient cash as at 30 June 2014. The Directors are of the opinion that the Group does not have any significant capital risk.

	30 June 2014	**31 December 2013**
	RMB'000	*RMB'000*
	Unaudited	Audited
Cash and cash equivalents	1,425,347	1,508,076
Less: Borrowings	—	(186,680)
	1,425,347	1,321,396

Trade and other receivables

The Group's trade receivables consist of the credit sales of its products to be paid by its distributors and bank acceptance bills due within half a year. Other receivables of the Group consist of prepayments to suppliers, deposits and other receivables. The Group's trade and other receivables were RMB1,477.0 million as at 30 June 2014, representing an increase of RMB79.0 million when compared with trade and other receivables of RMB1,398.0 million as at 31 December 2013, the increase was mainly due to the increase in prepayments to suppliers and other receivables.

Inventory

Inventory as at 30 June 2014 amounted to RMB129.3 million (Inventory as at 31 December 2013: RMB101.3 million). Inventory turnover days were 51 days for the Period (for the six months ended 30 June of 2013: 42 days). We had no inventory impairments during the Period.

Property, plant and equipment

The Group's property, plant and equipment consist of buildings, production and electronic equipment, motor vehicles and construction in progress. As at 30 June 2014, the net book value of property, plant and equipment amounted to RMB1,540.1 million, representing an increase of RMB98.4 million, or approximately 6.8%, when compared with the net book value of property, plant and equipment as at 31 December 2013. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Intangible assets

The Group's intangible assets mainly consist of goodwill, customer relationships, patents, 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 represented the acquisitions of certain pharmaceutical R&D projects from external research institutions and its self-developed R&D projects. As at 30 June 2014, net intangible assets amounted to RMB2,844.1 million (as at 31 December 2013: RMB2,880.6 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 30 June 2014, trade and other payables amounted to RMB1,020.0 million, representing a decrease of RMB233.1 million when compared with the trade and other payables as at 31 December 2013. The decrease was mainly due to the payment of payables for the previous year during the Period.

Contingent liabilities and guarantees

As at 30 June 2014, the Group had no material contingent liabilities or guarantees (31 December 2013: nil).

Off-balance sheet commitments and arrangements

As at 30 June 2014, 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 us or engage in the provision of leasing, hedging or research and development services to the Group.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in a financial loss for us. We have no significant concentrations of credit risk. Credit risk arises mainly from cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The carrying amounts of cash equivalents, 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 it as bank deposits in large PRC state-owned banks without significant credit risks. We manage the credit risk of cash outside the PRC by placing it as 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 investment products with maturities of six months and non-determinable return rate placed in certain PRC state-owned banking institutions and reputable international financial institutions outside of PRC.

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

Foreign exchange risk

RMB is the functional currency of the Group and its major subsidiaries. All of the revenues of the Group are derived from operations in the PRC. Financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency.

For the Period, 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 purchase of property, plant and equipment, land use rights and intangible assets. For the Period, our capital expenditure amounted to RMB431.5 million, of which RMB107.3 million was spent on property, plant and equipment. Purchasing and self-developed intangible assets increased by RMB77.5 million, and expenditure on land use rights was RMB246.7 million.

Human Resources and Remuneration of Employees

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

As at 30 June 2014, the Group had 2,726 employees. For the Period, total salaries and related costs of the Group were approximately RMB127.3 million (for the six months ended 30 June 2013: RMB76.7 million).

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code"), as set out in Appendix 14 of the Rules Governing the the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period 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") as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code throughout the for the Period.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the Period, 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

As at the date of this announcement, the Audit Committee consists of one non-executive Director (Dr. Zhang Jionglong) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy. The chairman of the Audit Committee has the appropriate professional qualification and experience in financial matters. The Audit Committee has reviewed the Company's interim condensed consolidated financial information for the Period.

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 Period.

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant events after the reporting period up to the date of this announcement.

BONUS SHARES ISSUED

With the approval of the Company's shareholders at the annual general meeting of the Company held on 30 May 2014, the Bonus Issue was made on the basis of 1 Bonus Share for every 1 share held by the Shareholders whose names appeared on the register of members of the Company on the Bonus Issue Record Date. As at the Bonus Issue Record Date, there were 5,182,091,103 Shares in issue and accordingly 5,182,091,103 Bonus Shares were issued on 20 June 2014. Details of the Bonus Issue is set out in the circular of the Company dated 29 April 2014 and the announcements of the Company dated 30 May and 16 June 2014 respectively.

INFORMATION FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB1.3 cents per share (equivalent to HK$1.7 per share) (for the six months ended 30 June 2013: RMB4.3 cents) for the Period.

The interim dividend will be payable on or around 24 September 2014 to shareholders whose names appear on the register of members of the Company at the close of business on 16 September 2014.

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

The register of members of the Company will be closed from 12 September 2014 to 16 September 2014, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 11 September 2014.

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 ON THE STOCK EXCHANGE'S WEBSITE

This announcement of interim results for the six months ended 30 June 2014 is published on the websites of the Stock Exchange at http://www.hkexnews.hk and of the Company at http://www.sihuanpharm.com.

PUBLICATION OF INTERIM REPORT FOR THE PERIOD

The interim report of the Company for the Period 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 branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or via email at sihuanpharm-ecom@hk.tricorglobal.com 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, 28 August 2014

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