Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2017

	Year ended 31 December		
	2017	**2016**	**Change**
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue	2,745,809	3,185,699	-13.8%
Gross profit	1,986,853	2,188,946	-9.2%
Operating profit	1,688,256	2,131,156	-20.8%
Profit attributable to owners of the Company	1,448,935	1,708,239	-15.2%
Key Financial Ratios			
Gross profit margin	72.4%	68.7%	
Net profit margin	53.9%	52.7%	
Earnings per share - Basic (RMB cents)	15.3	16.8	
Receivable Turnover (days)	69	63	
Inventory Turnover (days)	102	78	
Proposed final cash dividend per share (RMB cents)	1.3	3.8	

2017 FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 13.8% from RMB3,185.7 million to RMB2,745.8 million in 2017.
- Profit attributable to owners of the Company decreased by 15.2% to RMB1,448.9 million in 2017.
- Basic earnings per share decreased by approximately 8.9% over 2016 to approximately RMB15.3 cents in 2017.
- The Board recommends the declaration and payment of a final cash dividend of RMB1.3 cents per share which is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting.

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017 (the "**Year**") together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	**2016**
	Notes	*RMB'000*	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		2,453,594	2,104,299
Investment properties		17,814	29,103
Goodwill		2,843,903	2,247,728
Intangible assets	4	1,338,006	578,998
Land use rights		702,661	647,769
Investments accounted for using the equity method	16	1,012,091	1,272,851
Deferred income tax assets		127,514	35,883
Available-for-sale financial assets	6	39,076	20,000
Other non-current assets		282,880	56,000
		8,817,539	6,992,631
Current assets			
Inventories		227,970	200,680
Trade and other receivables	5	747,141	877,256
Available-for-sale financial assets	6	2,967,354	1,709,964
Cash and cash equivalents		831,859	2,407,073
		4,774,324	5,194,973
Total assets		13,591,863	12,187,604

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
		2017	**2016**
	Notes	*RMB'000*	*RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	7	78,233	79,443
Treasury shares	7	—	(255)
Share premium	7	4,093,317	4,344,229
Other reserves		166,210	137,096
Retained earnings		6,719,232	6,340,925
		11,056,992	10,901,438
Non-controlling interests		279,078	69,655
Total equity		11,336,070	10,971,093
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		264,396	74,094
Other non-current liabilities	8	88,084	103,924
		352,480	178,018
Current liabilities			
Trade and other payables	9	1,804,787	827,306
Current income tax liabilities		70,829	158,800
Borrowings		—	8,280
Other current liabilities	8	27,697	44,107
		1,903,313	1,038,493
Total liabilities		2,225,793	1,216,511
Total equity and liabilities		13,591,863	12,187,604

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2017	**2016**
	Notes	*RMB'000*	*RMB'000*
Revenue	10	2,745,809	3,185,699
Cost of sales	11	(758,956)	(996,753)
Gross profit		1,986,853	2,188,946
Other income	10	136,534	166,434
Other gains - net	10	313,917	486,289
Gain on derecognition of associates		—	3,851
Gain on derecognition of subsidiaries		125,771	871
Distribution costs	11	(227,633)	(145,765)
Administrative expenses	11	(629,028)	(540,467)
Other expenses	11	(18,158)	(29,003)
Operating profit		1,688,256	2,131,156
Finance expenses		(46)	(210)
Share of profits of investments accounted for using the equity method	16	40,865	21,624
Profit before income tax		1,729,075	2,152,570
Income tax expense	12	(250,167)	(472,732)
Profit for the year		1,478,908	1,679,838
Profit attributable to:			
Owners of the Company		1,448,935	1,708,239
Non-controlling interests		29,973	(28,401)
		1,478,908	1,679,838

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

		Year ended 31 December	
		2017	**2016**
	Notes	*RMB'000*	*RMB'000*
Profit for the year		1,478,908	1,679,838
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		93,138	87,260
Reclassification adjustments for gains included in the consolidated statement of profit or loss			
- Gain on disposal		(85,137)	(97,676)
Other comprehensive income/(loss) for the year, net of tax		8,001	(10,416)
Total comprehensive income for the year		1,486,909	1,669,422
Attributable to:			
Owners of the Company		1,456,936	1,697,823
Non-controlling interests		29,973	(28,401)
Total comprehensive income for the year		1,486,909	1,669,422
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted earnings per share for profit for the year	13	15.3 cents	16.8 cents

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2017	**2016**
	Notes	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		2,359,243	2,613,776
Income tax paid		(441,653)	(595,750)
Net cash flows from operating activities		1,917,590	2,018,026
Cash flows from investing activities			
Capital contribution to associates		(110,831)	(108,000)
Net cash inflow from disposal of subsidiaries		139,646	20,624
Net cash inflow from disposal of associates		—	75,336
Acquisition of subsidiaries		(576,114)	—
Payment for purchase of property, plant and equipment		(406,304)	(241,116)
Purchase of intangible assets		(22,165)	(38,334)
Purchase of land use rights		(58,564)	(85,143)
Purchase of available-for-sale financial assets	6	(12,434,239)	(9,513,100)
Proceeds from disposal of available-for-sale financial assets	6	11,284,850	9,752,000
Proceeds from disposal of property, plant and equipment		229	408
Dividend received from a joint venture		—	40,000
Interest received		86,238	97,676
Net cash flows (used in)/from investing activities		(2,097,254)	351
Cash flows from financing activities			
Repayment from borrowings		(3,500)	—
Repurchase and cancellation of shares		(251,867)	(1,237,041)
Acquisition of an additional interest in a subsidiary		—	(52,662)
Non-controlling interests arising on establishing new subsidiaries		3,907	—
Capital contribution by non-controlling shareholders of a subsidiary		—	3,298
Dividends paid	14	(1,144,090)	(607,059)
Interest paid		—	(210)
Net cash flows used in financing activities		(1,395,550)	(1,893,674)
Net (decrease)/increase in cash and cash equivalents		(1,575,214)	124,703
Cash and cash equivalents at beginning of year		2,407,073	2,282,370
Cash and cash equivalents at end of year		831,859	2,407,073

Notes:

1. GENERAL INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (the "**Company**") is incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

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

The holding company and 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 in Hong Kong is Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 21/F, Building 2, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

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

These consolidated financial statements have been approved for issue by the board of directors on 26 March 2018.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all IFRSs, International Accounting Standards ("**IASs**") and interpretations, promulgated by the International Accounting Standards Board (the "**IASB**"). These financial statements also complied with the disclosure requirements of the Hong Kong Companies Ordinance, and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

They have been prepared under the historical cost convention, modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs 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.

These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2. **BASIS OF PREPARATION (Continued)**

Changes in accounting policies and disclosures

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the board of the Company. The executive directors of the board of the Company 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 executive directors of the board of the Company consider the business from product perspective. The Group is engaged in only one business segment, being the research and development, manufacturing and sale of pharmaceutical products in the PRC. During the year ended 31 December 2017, all sales were from distributors and there were no distributors of the Group from which the revenue amounted to 10% or more of the Group's revenue (2016: None).

4. INTANGIBLE ASSETS

	Customer relationship	Deferred development costs	Product development in progress	Trademark and software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost at 1 January 2016, net of accumulated amortisation and impairment	117,188	215,693	229,222	7,234	569,337
Additions	—	99,867	25,456	24,667	149,990
Amortisation charge	(77,293)	(30,865)	—	(3,661)	(111,819)
Impairment	—	(969)	(27,541)	—	(28,510)
Net carrying amount at 31 December 2016	39,895	283,726	227,137	28,240	578,998
At 31 December 2016:					
Cost	433,932	551,689	350,767	48,132	1,384,520
Accumulated amortisation	(394,037)	(265,931)	—	(19,892)	(679,860)
Impairment	—	(2,032)	(123,630)	—	(125,662)
Net carrying amount	39,895	283,726	227,137	28,240	578,998
Cost at 1 January 2017, net of accumulated amortisation and impairment	39,895	283,726	227,137	28,240	578,998
Additions	—	13,797	—	2,808	16,605
Acquisition of subsidiaries	—	856,228	—	1,130	857,358
Amortisation charge	(39,895)	(69,477)	—	(5,583)	(114,955)
Net carrying amount at 31 December 2017	—	1,084,274	227,137	26,595	1,338,006
At 31 December 2017:					
Cost	433,932	1,421,714	350,767	52,070	2,258,483
Accumulated amortisation	(433,932)	(335,408)	—	(25,475)	(794,815)
Impairment	—	(2,032)	(123,630)	—	(125,662)
Net carrying amount	—	1,084,274	227,137	26,595	1,338,006

5. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables — third parties (i)	167,854	97,455
Notes receivables	290,589	493,731
Prepayments to suppliers	112,594	172,404
Amounts due from associates	107,959	13,500
Amount due from a joint venture	—	74,519
Amount due from other related party	9,675	9,673
Other receivables	58,470	15,974
	747,141	877,256

(i) Trade and other receivables that were neither past due nor impaired were assessed by referring to historical information about default rates, reputation, liquidity and other financial information of the counterparties.

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 Group seeks to maintain strict control over its outstanding receivables. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	161,537	93,942
3 to 6 months	2,613	3,211
6 months to 1 year	3,700	3
More than 1 year	4	299
	167,854	97,455

As at 31 December 2017 and 2016, no trade receivables were impaired and no allowance was made. The trade receivables are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of every class of receivables mentioned above.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	RMB'000	*RMB'000*
At 1 January	1,729,964	1,959,280
Additions	12,553,315	9,533,100
Disposals	(11,284,850)	(9,752,000)
Change in fair value of available-for-sale financial assets	8,001	(10,416)
At 31 December	3,006,430	1,729,964

Available-for-sale financial assets include the following:

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Unquoted equity share, at cost (i)	39,076	20,000
Short-term investments (ii)	2,967,354	1,709,964
	3,006,430	1,729,964

(i) The amount represents equity investments in the unquoted equity shares of Jiangsu Antai Biotechnology Co., Ltd. and Orion TC Holdings Limited. The investments are accounted for using cost method, because the Group has no representative on the board of directors of these entities and no significant impact on them.

(ii) The amount representing short-term investments are the bank financial products issued by certain PRC reputable banking institutions with maturity of less than 6 months, non-determinable return rate and part of the principle guaranteed. These investments are all denominated in RMB.

The fair values of these investments are based on an average estimated return rate of 4.5% (2016:3.9%).

The maximum exposure to credit risk at the reporting date is the carrying values 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 the banking institutions internal credit ratings. None of these financial assets is either past due or impaired.

7. SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of authorised ordinary shares	Number of issued and fully paid ordinary shares	Share capital	Treasury Shares	Shares premium	Total
	Share'000	*Share'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016 (HK$0.01 per share)	100,000,000	10,364,182	85,610	—	5,574,848	5,660,458
Movement from 1 January 2016 to 31 December 2016:						
Repurchase and cancellation of shares	—	(777,498)	(6,167)	(255)	(1,230,619)	(1,237,041)
As at 31 December 2016 (HK$0.01 per share)	100,000,000	9,586,684	79,443	(255)	4,344,229	4,423,417
As at 1 January 2017 (HK$0.01 per share)	100,000,000	9,586,684	79,443	(255)	4,344,229	4,423,417
Movement from 1 January 2017 to 31 December 2017:						
Repurchase and cancellation of shares	—	(115,602)	(1,210)	255	(250,912)	(251,867)
As at 31 December 2017 (HK$0.01 per share)	100,000,000	9,471,082	78,233	—	4,093,317	4,171,550

Note:

The Company purchased 115,602,000 of its shares on the Stock Exchange Limited at a total consideration of HKD282,283,000 (equivalent to RMB251,867,000), which was paid wholly out of share premium in accordance with section 257 of the Hong Kong Companies Ordinance. As at 31 December 2017, all purchased shares were cancelled.

8. OTHER LIABILITIES

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Deferred revenue for sales of distribution rights	44,222	82,592
Deferred government grants	71,559	65,439
	115,781	148,031
Less: current portion		
Deferred revenue for sales of distribution rights	21,300	39,501
Deferred government grants	6,397	4,606
	27,697	44,107
Non-current portion	88,084	103,924

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Trade payables	34,320	82,662
Advances from customers	360,594	235,401
Costs of construction and purchase of equipment payables	51,857	68,703
Payable for acquisition of a subsidiary	300,000	—
Amount due to a joint venture	—	69,302
Amount due to other related party	83	83
Deposit payables	241,225	149,486
Accrued reimbursement to distributors	505,833	47,369
Other taxes payable	180,749	58,230
Salaries payable	52,891	57,074
Other payables	77,235	58,996
	1,804,787	827,306

9. TRADE AND OTHER PAYABLES (Continued)

The trade payables are non-interest-bearing and have an average term of 40 days.

An ageing analysis of the trade payables as at the end of the reporting date, based on the invoice date, is as follows:

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Within 6 months	24,329	79,411
6 months to 1 year	3,766	1,268
More than 1 year	6,225	1,983
	34,320	82,662

The fair values of trade and other payable approximate their carrying amounts.

10. REVENUE, OTHER INCOME AND GAINS

	Year ended 31 December 2017 *RMB'000*	2016 *RMB'000*
Revenue:		
Sales of pharmaceutical products (a)	2,743,803	3,170,469
Revenue from general hospital services	2,006	15,230
	2,745,809	3,185,699
Other income:		
Sales of distribution rights	35,256	51,118
Rental income	3,803	3,785
Interest income	97,475	111,531
	136,534	166,434
Other gains — net:		
Government grants (b)	304,963	374,058
Exchange gain	—	79,513
Others	8,954	32,718
	313,917	486,289

Notes:

(a) Sales of pharmaceutical products represent the sales value of goods supplied to customers, net of sales tax, value added tax, sales returns and commercial discounts.

(b) The total government grants represented the subsidies received from the local government and no specific conditions were attached to them.

11. EXPENSES BY NATURE

	Year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Research and development costs		
Research expenses	163,932	109,997
Amortisation of deferred development costs	69,477	30,865
	233,409	140,862
Raw materials used	401,607	577,408
Changes in inventories of finished goods and work in progress	10,399	61,339
Employee benefit expenses		
Wages and salaries	309,967	270,435
Welfares	63,538	46,281
Share-based payments	1,775	(469)
Depreciation of property, plant and equipment	167,779	163,176
Depreciation of investment properties	1,180	1,778
Amortisation of intangible assets excluding the amortisation of deferred development costs	45,478	80,954
Impairment of intangible assets	—	28,510
Tax surcharges	90,238	54,184
Office expenses	43,022	38,197
Travelling expenses	28,649	23,130
Professional services expense	48,258	62,274
Transportation expenses	24,600	24,355
Utilities and property management fee	9,476	9,192
Rental expenses	8,673	19,685
Amortisation of land use rights	13,131	14,244
Advertising and promotional expenses	47,885	14,856
Auditor's remuneration	5,500	5,500
Entertainment expenses	8,131	6,928
Bank charge	561	493
Others	70,519	68,676
Total cost of sales, distribution costs, administrative expenses and other expenses	1,633,775	1,711,988

12. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 2017 and 2016 is analysed as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Current taxation:		
- Provision for the year	326,858	387,721
- Provision for withholding tax	25,001	154,430
Deferred tax	(101,692)	(69,519)
Income tax expense	250,167	472,732

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

	Year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Profit before tax	1,729,075	2,152,570
Tax calculated at the PRC applicable statutory tax rate of 25% (2016: 25%)	432,269	538,142
Tax effects of:		
— Utilisation of previously unrecognised tax losses	(1,415)	(1,634)
— Effect of tax concessions and exemption	(201,366)	(229,038)
— Expenses not deductible for tax purposes	25,641	27,056
— Profits and losses attributable to joint ventures and associates	(10,216)	(5,406)
— Income not subject to tax	(31,443)	—
— Tax losses for which no deferred income tax asset was recognised	11,696	35,712
— Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	25,001	107,900
Income tax expense	250,167	472,732

Bermuda profits tax

The Group is not subject to any taxation in this jurisdiction during the year (2016: Nil).

12. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during the year (2016: Nil).

PRC corporate income tax ("PRC CIT")

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

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

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2017 and 2016 was provided at the rate of 15%.

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%.

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issuance during the year.

	Year ended 31 December	
	2017	**2016**
Profit attributable to owners of the Company (*RMB'000*)	1,448,935	1,708,239
Weighted average number of ordinary shares in issue for basic earnings per share (*Share* '000)	9,482,649	10,140,612
Basic earnings per share (*RMB cents per share*)	15.3	16.8

(b) Diluted

There was no dilution to earnings per share during 2017 and 2016 because there were no potential dilutive ordinary shares existing during these years. The diluted earnings per share amounts equalled to the basic earnings per share amounts.

14. DIVIDENDS

The dividends paid in 2017 and 2016 were RMB1,051,290,000 and RMB607,059,000, respectively. A final cash dividend for the year ended 31 December 2017 of RMB123,124,000 was recommended by the Board and subject to approval at the forthcoming annual general meeting of the Company.

Dividends approved and paid to owners of the Company during the year:

	2017	**2016**
	RMB'000	*RMB'000*
Final 2016 dividend of RMB3.8 (2015: RMB4.5) cents per ordinary share for the previous year, paid during the year	359,901	463,750
Final 2016 special cash dividend of RMB5.5 (2015: Nil) cents per ordinary share for the previous year, paid during the year	520,910	—
Interim dividend of RMB1.8 (2016: RMB1.4) cents per ordinary share, declared and paid during the year	170,479	143,309
	1,051,290	607,059

Dividends proposed by the Company during the year:

Proposed final cash dividend of RMB1.3 (2016: RMB3.8) cents per ordinary share	123,124	360,243
Proposed special cash dividend (2016: RMB5.5 cents per ordinary share)	—	521,405
	123,124	881,648

15. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Property, plant and equipment	148,135	219,791
Intangible assets - product development in progress	73,875	50,782
	222,010	270,573

15. COMMITMENTS (Continued)

(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	
	2017	**2016**
	RMB'000	*RMB'000*
Within 1 year	1,460	15,379
Between 2 and 5 years	654	18,180
More than 5 years	—	98,508
	2,114	132,067

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2017	**2016**
	RMB'000	*RMB'000*
Opening balance at 1 January	1,272,851	1,189,118
Addition of associates (i)	90,832	108,030
Capital contributions to an existing associate (ii)	19,999	65,564
Derecognition of associates	(19,076)	(71,485)
Derecognition of a joint venture	(393,380)	—
Share of post-tax profit of associates and a joint venture	40,865	21,624
Dividend from Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang")	—	(40,000)
Closing balance at 31 December	1,012,091	1,272,851

(i) In September 2017, the Group acquired a 19.99% equity interest in Pharmadax (Foshan) Co., Ltd. from PharmaDax (Hong Kong) Limited at a consideration of RMB80,000,000.

In July 2017, the Group subscribed a 18.57% equity interest in Medifood International SA and paid EUR742,856 (equivalent to RMB5,832,553) by cash to partners of Medifood International SA.

(ii) In May 2017, the Group recognised an additional investment in an existing associate, Shanghai Lide Biotech Co., Ltd. ("**Shanghai Lide**"). The capital was injected to Shanghai Lide by cash at the end of June 2017, and the legal and substance modification procedures was completed in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

In 2017, the Chinese government took further steps to reform the country's healthcare services, medical insurance and pharmaceuticals (三醫聯動) , through the implementation of a raft of initiatives such as the Two-invoice System, regulation on drug prescription, mandatory bioequivalent tests, and tightening control of hospital expenditure. The Group's sales performance was negatively impacted. Meanwhile, policies such as Marketing Authorization Holder (MAH), improvement of the evaluation and approval system and encouragement of drug innovation are expected to enhance the structure and standard of the country's R&D system. The changes have presented challenges and brought about a wave of industry consolidation, while creating supply-and-demand imbalances and immense growth potentials for quality corporations.

In view of that, the Group focused on building a stronger operational foundation for sustainable development in the year 2017. The Group implemented a series of internal adjustments with the aim to "strengthen R&D capabilities, optimize product resources and accelerate market expansion". With these efforts, the Group mitigated policy impacts and strengthened its fundamentals, dedicated to transforming the challenges into opportunities.

Strengthen R&D capabilities

1. **Established clear innovative drug pipeline**

The Group increased its investment in R&D and allocated more resources in therapeutic areas of major unmet clinical needs, such as oncology, immuno-oncology, diabetes and non-alcoholic steatohepatitis ("**NASH**"). By doing so, the Group successfully accelerated the progress of multiple innovative drug projects and established a clear R&D pipeline. Two of its major projects, Birociclib and Janagliflozin, are expected to enter Phase III clinical trial in the second half of 2019 and submit New Drug Application ("**NDA**") in 2021. In addition, there is one ongoing insulin analogue project currently in IND stage.

In addition, the Group established the United States ("**U.S.**") Innovative Drug Research and Development Centre ("**U.S. R&D Centre**") in the San Francisco Bay Area, which is an important milestone for entering the high-end biologic pharmaceutical field. It will help promote internationalization of the Group's innovative drugs and accelerate their marketization in China, through simultaneous applications to U.S. Food and Drug Administration ("**U.S. FDA**") and the China Food and Drug Administration ("**CFDA**").

2. **Sound generic drug development**

The Group pushed forward development of key projects after assessing their competitive landscape and clinical demand. A number of new products are scheduled to be launched in the coming few years. A few oral solid dosage products were selected to conduct bioequivalence test and have achieved sound progress, targeting to become the first or among the first two products to pass the test.

Optimize product resources

3. **Cooperation with international pharmaceutical companies for better product portfolio**

The Group continued its efforts in international collaboration and established a joint venture with Austria-based pharmaceutical company Croma-Pharma GmbH ("**Croma Pharma**"), and thus extended into China's aesthetic medicine market which has been growing at a rate of over 20% annually. The joint venture's first product Princess® VOLUME dermal filler received CFDA approval and has commenced sales. The Group has begun clinical trials for other aesthetic medicine products. Further product diversification is expected in the near future.

4. **Continued to seek M&A opportunities amid industry consolidation**

The Group acquired 100% equity interest in Ambest Pharmaceutical (China) Co. Ltd, (弘和製藥(中國)有限公司) ("**Ambest Pharmaceutical (China)**") at RMB1.1 billion (the "**Share Aquisition**"). The Group currently holds drug production approvals of Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (甘草酸單銨半胱氨酸氯化鈉注射液) with the brand name "Huineng (回能)", and Floium Ginkgo Extract and Tertram Ethypyrazine Sodium Chloride Injection (杏芎氯化鈉注射液) with "Mainuokang (邁諾康)" as the brand name. Both products have been launched in most provinces and municipalities in China and their sales have shortly reached considerable scale.

5. **Strengthened evidence-based research to prolong product life span**

The Group conducted evidence-based research to reinforce the clinical efficacy, safety and indications of its major products (such as Kelinao, Oudimei, Roxatidine, Yuanzhijiu etc.), of which the results have been published. The Group promoted inclusion of its major products in official clinical guidelines, expert consensus, and interpretation of clinical pathways, successfully listed all major products in county level interpretation of clinical pathways and interpretation of clinical pathway and therapeutic drugs. The Group has also started the re-evaluation research of its exclusive and major products, including Kelinao.

Tapping unexplored markets

6. **Accelerated expansion in lower-end markets**

   In view of the government's promotion of a hierarchical healthcare system to direct resources to primary healthcare institutions, the Group concentrated its marketing efforts on the expansion in lower-end markets while consolidating its position in high-end markets. The Group focused on small- and medium-sized hospitals in lower-tier cities and community-level healthcare institutions.

   According to data from IMS Health Incorporated ("**IMS**") for the fourth quarter of 2017, Sihuan Pharmaceutical ranked sixth in the county market development with its purchase amount reaching RMB3.2 billion, with a year-on-year growth of 3.6%, presenting higher growth than other domestic companies.

7. **Strengthened academic promotions to enhance marketing capabilities**

   The Group continued to step up its national academic promotions, resulting in improved market recognition and coverage. Its growth stage products achieved satisfactory growth, attributable to expansion into extended markets through winning tenders and being listed in more provincial reimbursement drug list ("**RDL**"). Tender price of major products such as Oudimei, Kelinao and Yuanzhijiu remained stable. The Group has raised the expertise of the sales team by providing systematic trainings to its salespersons and distributors. The Group also further unlock potential of its products by market segmentation, i.e. assigning specific strategies and targets for products in different stages.

Sales Performance

With the aforementioned strategies, along with the Group's solid foundation in the cardio-cerebral vascular ("**CCV**") prescription drug and hospital market in China, Sihuan Pharmaceutical combated the unfavorable policies and minimized their impacts.

The Group recorded revenue of approximately RMB2,745.8 million in 2017, representing a year-on-year decrease of 13.8%. Profit attributable to owners of the Company was RMB1,448.9 million, representing a year-on-year decrease of 15.2%. Net profit margin was 53.9%.

According to data from IMS, the Group remained the largest CCV drug manufacturer in China's prescription drug market with a market share of 10.6% in terms of hospital purchases. Moreover, the Group was the sixth largest pharmaceutical company in China's entire hospital market with a market share of 1.8%

CCV products

During 2017, revenue contributed by CCV drugs decreased 14.1% year-on-year to RMB2,582.9 million, accounting for 94.1% of the Group's total revenue, caused by tightening control of hospital budget.

Revenue of Mainuokang, a growth stage product, surged to RMB65.8 million, accounting for 2.4% of the Group's total revenue. The product has been included in 11 provincial RDLs as compared to 9 last year, and has won tenders in a total of 18 provinces. Oudimei's revenue reduced by 15.9% year-on-year to RMB686.9 million, accounting for 25% of the Group's total revenue. Yuanzhijiu's revenue dropped 5.6% to RMB463.9 million, accounting for 16.9% of the Group's total revenue.

Combined revenue of Kelinao and Anjieli (Cinepazide Maleate) was RMB390.0 million, accounting for 14.2% of the Group's total revenue. Bejing Sihuan Pharmaceutical Co., Ltd. ("**Beijing Sihuan**") won the lawsuit against Qilu Pharmaceutical Co., Ltd. ("**Qilu Pharma**") regarding the infringement of patents of Cinepazide Maleate, which have been exclusive products of Beijing Sihuan before other companies, such as Qilu Pharma, conducted their manufacturing and sales. The favorable decision towards the Group demonstrated the validity of the patents, and will help to rebuild the exclusivity of Kelinao and Anjieli, and therefore enhance the advantages in the process of tendering.

Sales of key CCV products:

Product Name	Revenue for the year ended 31 December 2016 *(RMB'000)*	2017 *(RMB'000)*	Change in sales year-on-year
Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin injection)	817,239	686,909	-15.9%
Yuanzhijiu/Xingwei (Troxerutin and cerebroproptein hydrolysate injection)	491,600	463,879	-5.6%
Kelinao/Anjieli (Cinepazide maleate injection)	494,624	389,969	-21.2%
Yimaining/Yikangning (Alprostadil lipid emulsion injection)	247,341	216,460	-12.5%
Wei'Ao (Salviae miltiorrhizae and ligustrazine hydrochloride injection)	222,414	216,549	-2.6%
Aogan/Xiangtong (Monosialotetrade osylganglioside sodium injection)	189,677	151,400	-20.2%
Yeduojia (Compound trivitamin B for injection (II))	147,644	126,487	-14.3%
Qu' Ao (Cerebroprotein hydrolysate)	124,000	78,909	-36.4%
Chuanqing (Ligustrazine hydrochloride for injection)	66,770	43,176	-35.3%
Mainuokang (Floium ginkgo extract and tertram ethypyrazine sodium chloride injection)	—	65,774	—
Salivae miltiorrhizae liguspyragine hydrochloride and glucose injection	3,291	4,233	28.6%

The Group was engaged in the sales of the Salviae miltiorrhizae and ligustrazine hydrochloride injection in both 2016 and 2017. As Jilin Sichang was consolidated into the Group since November 2017, Jilin Sichang's product revenue from January to October 2017 was approximately RMB40.1 million and its annual revenue of RMB11.1 million in 2016 was not reflected in the Group's consolidated revenue. Taking into account of Jilin Sichang's annual revenue in 2016 and 2017, the annual revenue from this product was approximately RMB233.6 million and RMB256.7 million in 2016 and 2017 respectively, representing an increase of 9.9%.

Non-CCV products

During 2017, revenue from non-CCV drugs decreased by 9.3% year-on-year to RMB162.9 million, accounting for 5.9% of the Group's total revenue.

Roxatidine's revenue grew 64% year-on-year to RMB35.3 million. The number of provincial RDLs which the product is included in increased by 3 to 5 and it has won tender in 23 provinces in total. It is expected to contribute more revenue along with RDL inclusion in more provinces.

Huineng's revenue grew 139.5% year-on-year to RMB19.3 million. The number of provincial RDLs which the product is included in increased by 2 to 11. It has won tender in 6 more provinces, making it 17 in total. The product is expected to contribute more revenue along with RDL inclusion in more provinces.

The Group's growth stage products are expected to grow along with more provincial tender wins and increased hospital coverage, thus making more significant contribution to the Group's overall performance.

Sales of key Non-CCV products:

Product Name	**Revenue for the year ended 31 December**		**Changes in sales year-on-year**
	2016 *(RMB'000)*	**2017** *(RMB'000)*	
Ren' Ao (Oxcarbazepine)	28,417	28,079	-1.2%
Roxatidine	21,511	35,269	64.0%
Clindamycin	19,808	17,534	-11.5%
Huineng (Monoammonium glycyrrhizinate and cysteine and sodium chloride injection)	8,054	19,289	139.5%
Nilestriol	280	422	50.6%

R&D

The CFDA has devised a Green Channel Fast Track for drugs complying with certain standards, allowing shortened evaluation timeframe and therefore accelerated launching of the drugs. The Group has established a clear innovative drug pipeline with focuses on therapeutic areas with substantial clinical demand, such as oncology/immuno-oncology, diabetes and NASH, especially drugs with new therapeutic targets and immuno-oncology drugs, among which the Group has been investing more of its efforts and resources in eight key Category I new drugs, which have achieved positive results.

Innovative Drugs

Rank		Therapeutic area	Registration classification	Project	Pre-clinical Trials	IND application	Clinical Trials			NDA
							Phase I	Phase II	Phase III	
First Tier	1	Diabetes	Category 1	Janagliflozin						
	2	Oncology	Category 1	Birociclib						
	3	Anti-infective	Category 1	Benapenem						
Second Tier	4	Oncology	Category 1	Pirotinib*			U.S			
	5	Gastrointestinal disease	Category 1	Anaprazole Sodium						
	6	CCV	Category 1	Tylerdipine						
	7	Oncology	Category 1	XZP-3621-1001						
	8	BPH-LUTS,ED	Category 1	Fadanafil						
	9	Diabetes	Category 7 Therapeutic Biologics	Insulin analogue						

* Phase I clinical trial of Pirotinib progressed smoothly in the U.S. and in China

Birociclib was granted CFDA approval for Phase I-III clinical trials, with indications in breast cancer and malignant brain tumor. To date, there is no drug in the same class launched in China. Phase III clinical trial is scheduled to commence in the second half of 2019.

Janagliflozin is an innovative anti-diabetic drug classified in the SGLT-2 inhibitor category, which is one of the most popular new targets for treating Type 2 diabetes globally. Phase III clinical trial is scheduled to commence in the second half of 2019.

Benapenem is a drug in the carbapenem family, a class of broad spectrum β-lactam antibiotics which are widely used to treat multiple drug resistance ("**MDR**") in hospitals. Its efficacy is significantly higher than similar drugs. Phase II clinical trial is about to commence.

Pipeline Internationalization

The Group established its U.S. R&D Centre in the San Francisco Bay Area in the U.S., strategically positioned as a part of the innovative drug R&D system. The U.S. R&D Centre leads the frontier of the Group to the field of biological drug, especially first-in-class immuno-oncology drugs. The Group targets to promote internationalization of its innovative drugs and to accelerate their marketization, through simultaneous applications to U.S. FDA and the CFDA.

On 3 September 2017, the Group entered into a series of agreements (the "**Agreements**") with PharmaDax Inc ("**PharmaDax**") to invest in PharmaDax (FoShan) Co., Ltd ("**PharmaDax Foshan**"), a subsidiary of PharmaDax, in phases. Through the strategic collaboration with PharmaDax, Sihuan Pharmaceutical can inject products that fit the European Union ("**EU**") and the U.S. markets developed by its generic drug R&D center into the production line of PharmaDax Foshan, and submit applications to the EU and the U.S. with the aim to further promote global development of its drug preparations, and embrace global markets. This collaboration not only gives the Group the first-mover advantages in China's generic drug market that will speed up the marketing of its products in China, but is also a key step in entering global market and will promote its international development.

As at the end of 2017, the innovative drug R&D platform has submitted applications for over 600 domestic patents, 39 PCT international patents, 1 Paris Convention patent (consisting of six countries) and 2 U.S. patents submitted individually. To date, the Group has been granted 158 domestic patents and 52 overseas patents. In 2017, the Group received 5 national, provincial and municipal R&D awards for its innovative drug R&D.

Generic Drugs

The Group focuses in major therapeutic areas, especially drugs with substantial clinical demand such as oncology and diabetes. The Group's generic drug R&D team has initiated projects of children's medicine and special formulations, which are encouraged by national policies.

The Group's generic drug R&D has achieved encouraging progress during the Year. There are 28 Category 3 drug projects (7 under development, 21 granted clinical trial approvals) and 39 Category 4 drug projects. The 3 key projects (Bolutinum toxin (肉毒素), Ambroxol (氨溴索), and Hyaluronic acid (玻尿酸)) are in Phase III clinical trial and will be launched to market in the coming few years. To date, the Group has submitted applications for production approvals for 15 generic drugs. During the year of 2017, the Group received 2 provincial and municipal R&D awards for its generic drug R&D.

The Group selected a few oral solid form drugs for bioequivalence tests. Metformin hydrochloride tablet (鹽酸二甲雙胍片) was the first in the industry to pass bioequivalent test and to complete submission. Azithromycin capsule (阿奇黴素膠囊) and Oxcarbazepine tablet (奧卡西平片) are expected to become the first and first two products in the industry, respectively, to pass bioequivalent test.

The Group has recorded sound progress in the development of biological drugs during the year, expecting clinical trial approval in the near future.

R&D Strategies

The CFDA has devised a Green Channel Fast Track for drugs complying with certain standards, allowing shortened evaluation timeframe and therefore accelerated launching of the drugs. In accordance with principles of "Market oriented, project based and differentiated products", the Group adopted a new system to bring innovative products to market in an efficient and cost-effective manner.

1. **Market oriented approach**: The Group initiated projects based on thorough studies on market composition, development potential, market demand, regulatory system and competitive landscape.

2. **Selective screening system**: The Group set up individual unit for each therapeutic area, such as oncology/immuno-oncology, diabetes and NASH to monitor global R&D trends, establish screening system and to integrate comprehensive information of each specific therapeutic area.

3. **Set up modified form drug project unit:** The Group comprehensively studied the biochemical characteristics, pharmacology and drug action of selected blockbuster drugs, and developed a modified form that is more applicable in clinical medicine based on the deficiency and drawback of the original form.

4. **Focus on products with high technical barrier:** The Group will focus on products with longer life span.

5. **Resource integration**: The Group integrated internal and external resources to expedite product launch. Leveraging collaboration with PharmaDax Foshan, the Group plans to accelerate product commercialization in China through priority evaluation channel while capturing both the EU and the U.S. markets.

6. **Building the A-team**: The Group continued to recruit high calibre talents and strengthen internal training.

B. FUTURE PROSPECTS

The government's continued push to promote healthcare sector reform will keep the industry under pressure. While the Group sees challenges in the industry's development in the short term, the Group believes that the higher visibility and further industry consolidation will put the industry on the path of healthy growth.

Sihuan Pharmaceutical aims to outpace the market with an optimized product portfolio and strengthened marketing capabilities. In the future, the Group will be investing significant resources into developing a sustainable pipeline of innovative and generic products, through in-house R&D, mergers and acquisitions and international cooperation. In terms of marketing, the Group will continue to increase penetration in lower-end markets for its mature products, and boost market coverage of its growth stage products by tender wins and inclusion in more provincial RDLs.

FINANCIAL REVIEW

Turnover

For the Year, the Group continued to strengthen its CCV drug business while promoting sales of its products of other therapeutic areas. Total revenue decreased by 13.8% or approximately RMB439.9 million from RMB3,185.7 million for 2016 to RMB2,745.8 million for the Year, in which sales of CCV drugs amounted to approximately RMB2,582.9 million, representing a decrease of approximately RMB423.1 million when compared with 2016, accounting for approximately 94.1% of the Group's total revenue.

Revenue contributed by non-CCV drugs decreased by approximately 9.3% from RMB179.7 million for 2016 to RMB162.9 million for the Year, accounting for approximately 5.9% of the Group's total revenue.

Cost of sales

The Group's cost of sales for the Year amounted to approximately RMB759.0 million, accounting for approximately 27.6% of the total revenue.

Gross profit

Gross profit was RMB1,986.9 million for the Year, representing a decrease of RMB202.0 million when compared with RMB2,188.9 million for 2016. Gross profit margin increased from 68.7% for 2016 to 72.4% for the Year, which was mainly due to streamlined production processes and effective cost control measures resulted from systematic management in the Group's production units.

Other net gains

Other net gains decreased by RMB172.4 million from RMB486.3 million for 2016 to RMB313.9 million for the Year. The decrease was mainly due to a reduction in government grants and exchange gains as compared with last year.

Distribution costs

Distribution costs for the Year increased by RMB81.9 million to RMB227.6 million over last year due to significant increase in national academic promotion activities, which were conducted in order to strengthen brand awareness of the Group's products.

Administrative expenses

Administrative expenses increased by 16.4% from RMB540.5 million for 2016 to RMB629.0 million for the Year, in which R&D cost increased by 50.0% from RMB162.9 million (including labor cost) for 2016 to RMB244.4 million (including labor cost) for the Year. This was mainly due to larger investment in R&D as compared to last year.

Other Expenses

Other expenses decreased from RMB29.0 million for 2016 to RMB18.2 million for the Year. The decrease was mainly due to the impairment of certain products under development in last year.

Profit before income tax

Due to the aforesaid, the Group's profit before income tax decreased by 19.7% from RMB2,152.6 million for 2016 to RMB1,729.1 million for the Year.

Income tax expenses

The Group's income tax expenses decreased by 47.1% from RMB472.7 million for 2016 to RMB250.2 million for the Year.

Profit for the year

Due to the aforesaid, the Group's net profit decreased by 12.0% from RMB1,679.8 million for 2016 to RMB1,478.9 million for the Year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased by 15.2% from RMB1,708.2 million for 2016 to RMB1,448.9 million for the Year.

Non-controlling interests

Non-controlling interests increased from losses of RMB28.4 million for 2016 to gains of RMB30.0 million for the Year.

Liquidity and financial resources

As at 31 December 2017, the Group's cash and cash equivalents amounted to RMB831.9 million (as at 31 December 2016: RMB2,407.1 million) and available-for-sale financial assets amounted to RMB2,967.4 million (as at 31 December 2016: RMB1,710.0 million).

The Group generally deposits its excess cash in interest-bearing bank accounts and current accounts. The Group may use extra cash for short-term investments in order to obtain better returns. Therefore, members of the Group entered into agreements with certain banking institutions to invest extra cash. According to such agreements, during the Year, the total amount of investment of members of the Group amounted to RMB2,944.5 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. 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 RMB2,944.5 million plus interest of approximately RMB22.9 million in aggregate amounted to approximately RMB2,967.4 million, which was recognized as available-for-sale financial assets in the consolidated balance sheet of the Group as at 31 December 2017. As at the date of this announcement, total amount of sold/repaid investment principal amounted to RMB2,832.5 million.

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 less than 1%.

The Group has sufficient cash as at 31 December 2017. The Directors are of the opinion that the Group does not have any significant capital risk.

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Cash and cash equivalent	831,859	2,407,073
Less: Borrowings	—	(8,280)
	831,859	2,398,793

Trade and other receivables

The Group's trade receivables consist of credit sales of its products to be paid by its distributors. Other receivables of the Group consist of other receivables, notes receivable, amount due from associates, joint venture and other related parties and prepayments to suppliers. The Group's trade and other receivables were RMB747.1 million as at 31 December 2017, representing a decrease of RMB130.2 million when compared with trade and other receivables of RMB877.3 million as at 31 December 2016, mainly due to a decrease of notes receivable for the year.

Inventory

Inventory as at 31 December 2017 amounted to RMB228.0 million (as at 31 December 2016: RMB200.7 million). Inventory turnover days were 102 days for the Year (for the year ended 31 December 2016: 78 days). The Group had no inventory impairments during the Year.

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 2017, the net book value of property, plant and equipment amounted to RMB2,453.6 million, representing an increase of RMB349.3 million, or approximately 16.6%, when compared with the net book value of property, plant and equipment as at 31 December 2016. The increase was mainly attributable to the expansion or construction of existing and new production facilities, and the purchase of equipment.

Goodwill

The Group's goodwill arose from the acquisition of subsidiaries. As at 31 December 2017, the net carrying amount of goodwill was RMB2,843.9 million (as at 31 December 2016: RMB2,247.7 million).

Intangible assets

The Group's intangible assets mainly consist of customer relationships, deferred development costs, product development in progress, trademark and software. The deferred development costs and product development in progress mainly represented the acquisition of certain pharmaceutical R&D projects from external research institutions and self-developed R&D projects. As at 31 December 2017, net intangible assets amounted to RMB1,338.0 million (as at 31 December 2016: RMB579.0 million).

Trade and other payables

The Group's trade and other payables primarily consist of trade payables, advances from customers, cost of construction and purchase of equipment payables, deposit payables, accrued reimbursement to distributors, other payables, accrued expenses and payables to employee remuneration. As at 31 December 2017, trade and other payables amounted to RMB1,804.8 million, representing an increase of RMB977.5 million when compared with the trade and other payables as at 31 December 2016, mainly due to the increase in payables for acquisition and other payables as a result of implementation of Two-invoice System.

Contingent liabilities and guarantees

As at 31 December 2017, the Group had no material contingent liabilities or guarantees (31 December 2016: nil).

Off-balance sheet commitments and arrangements

As at 31 December 2017, 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 R&D services to the Group.

Capital commitment

As at 31 December 2017, the Group had a total capital commitment of RMB222.0 million, mainly set aside for the acquisition of property, plant and equipment and intangible assets.

Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, available-for-sale financial assets and other receivables.

All the cash equivalents and bank deposits are placed in certain PRC reputable financial institutions and high-quality international financial institutions outside the Mainland China. All those irrevocable bank bills, classified as notes receivable, are issued by the banks in the PRC with high credit rating. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit period granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It 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 risk based on historical data and cash collection history.

Available-for-sale financial assets are the bank financial products issued by certain PRC reputable banking institutions. There was no recent history of default and the executive directors of the board of the Company are of the opinion that the credit risk related to the investments is low.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the recoverability of these other receivables and follow up the disputes or amounts overdue, if any. The executive directors of the board of the Company are of the opinion that the default by counterparties is low.

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

Foreign exchange risk

The functional currency of the Company and its subsidiaries is RMB. All of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are mainly denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The main foreign currency denominated assets and liabilities of the Group were certain cash and cash equivalents, which were denominated in United States Dollars ("**USD**"), Hong Kong Dollars ("**HKD**"), Great Britain Pound ("**GBP**") and Euro ("**EUR**"). In the opinion of the executive directors of the board of the Company, the Group does not have significant exposure to foreign exchange risk.

Treasury Policies

The Group finances its ordinary operations with internally generated resources.

Capital expenditure

The Group's capital expenditure primarily consists of purchase of property, plant and equipment, land use rights and intangible assets. For the Year, the Group's capital expenditure amounted to RMB487.1 million, of which expense on property, plant and equipment, acquisition of land use rights and purchase or in-house development of intangible assets amounted to RMB406.3 million, RMB58.6 million and RMB22.2 million.

For the Year, the Group's investment in capital expenditure for R&D was RMB70.4 million, of which RMB51.6 million was spent on property, plant and equipment. The remaining RMB18.8 million was for purchasing and self-developed intangible assets.

Material acquisition and disposal

On 22 March 2017, Sun Moral International (HK) Ltd., a wholly-owned subsidiary of the Company, entered into an equity acquisition agreement with Ambest Pharmaceutical Company Limited (弘和製藥集團有限公司) to acquire the 100% equity interest held by it in Ambest Pharmaceutical (China), for a consideration of RMB1,100 million. Upon completion of the Share Acquisition, Ambest Pharmaceutical (China) has become a wholly-owned subsidiary of the Group.

Ambest Pharmaceutical (China) is engaged in the manufacturing of large volume injections, and research, technology transfer and technology services of pharmaceutical products. The drug production approvals it currently holds include Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (甘草酸單銨半胱氨酸氯化鈉注射液), with the brand name "Huineng" (回能), and Floium Ginkgo Extract and Tertram Ethypyrazine Sodium Chloride Injection (杏芎氯化鈉注射液) with "Mainuokang (邁諾康)" as the brand name. Other than commitment to sales, research and development, the Group has been constantly looking for opportunities to acquire companies owning exclusive products with large market potential, especially CCV products, in hope of further improving its market share and competitiveness. Ambest Pharmaceutical (China), the acquired target company, meets such requirements of the Group. Please refer to the Company's announcement dated 22 March 2017 for details.

On 3 September 2017, Hainan Sihuan Pharmaceutical, a wholly-owned subsidiary of the Company, entered into the Agreements with PharmaDax. According to the Agreements, the Group will invest in PharmaDax Foshan, a subsidiary of the PharmaDax, in phases. In the first phase, the Group will subscribe for 19.99% equity interests in, and corporate bonds issued by, PharmaDax Foshan at the consideration of RMB200 million. In the second phase, the Group will convert the aforementioned corporate bonds into equity interest in PharmaDax Foshan (the "**Conversion**") upon satisfaction of certain conditions stipulated in the Agreements. Furthermore, the Group shall make an additional investment of up to RMB200 million (the "**Additional Investment**") upon satisfaction of certain conditions stipulated in the Agreements. The Group will hold 51% equity interest in PharmaDax Foshan upon completion of the Conversion and the Additional Investment.

Through the strategic collaboration with PharmaDax, Sihuan Pharmaceutical can inject products that fits the EU and the US markets developed by its generic drug (research R&D and development) center into the production line of PharmaDax Foshan, and submit applications to the EU and the US with the aim to further promote global development of its drug preparations, and embrace global markets. This collaboration not only gives the Group the first-mover advantages in China's generic drug market that will speed up the marketing of its products in China, but is also a key step to entering international market and will promote its international development. Please refer to the Company's announcement dated 4 September 2017 for details.

During the year, the Group entered into an equity disposal agreement with Beijing Gaobo Hospital Management Co., Ltd., and disposed of its entire equity interest of 95% in Beijing Boren Hospital at the consideration of RMB140 million.

Pledge of assets

As at 31 December 2017, none of the Group's assets was pledged.

Human Resources and Remuneration of Employees

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

As at 31 December 2017, the Group had 3,445 employees. For the Year, total salary and related costs of the Group was approximately RMB375.3 million (for the year ended 31 December 2016: RMB316.2 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 the Year, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Hong Kong Stock Exchange Limited (the "**Stock Exchange**") are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this announcement as required under the Listing Rules.

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

During the Year, the Company repurchased 115,602,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HK$281.8 million. Such shares have been cancelled as at the date of this announcement. Details of repurchase are as follows:

Date of repurchase	Number of ordinary shares repurchased	Highest HK$	Lowest HK$	Consideration paid HK$ Million	Equivalent to RMB Million
5 January 2017	17,000,000	2.23	2.21	37.8	33.8
6 January 2017	5,000,000	2.20	2.18	11.0	9.8
9 January 2017	154,000	2.19	2.19	0.3	0.3
13 January 2017	13,002,000	2.19	2.15	28.4	25.4
16 January 2017	4,830,000	2.18	2.15	10.5	9.4
19 January 2017	8,888,000	2.24	2.21	19.9	17.8
6 February 2017	2,907,000	2.30	2.24	6.6	5.9
13 February 2017	6,458,000	2.50	2.47	16.1	14.3
16 February 2017	7,277,000	2.57	2.46	18.4	16.2
17 February 2017	13,000,000	2.53	2.43	32.2	28.5
20 February 2017	9,504,000	2.49	2.42	23.5	20.7
21 February 2017	5,506,000	2.54	2.49	13.9	12.3
22 February 2017	10,000,000	2.57	2.49	25.5	22.5
23 February 2017	3,076,000	2.59	2.55	7.9	7.0
19 April 2017	9,000,000	3.34	3.25	29.8	26.5
Total:	**115,602,000**			**281.8**	**250.4**

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed, the Group has no significant events after the reporting period up to the date of this announcement.

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

AUDIT COMMITTEE

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

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

The annual results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Friday, 1 June 2018. The notice of the Annual General Meeting will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018 (both dates inclusive). In order to determine the identity of the Shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 28 May 2018.

INFORMATION FOR FINAL DIVIDEND

The Board recommended the declaration and payment of a final cash dividend of RMB1.3 cents per share (equivalent to HK$1.6 cents per share) for the year ended 31 December 2017 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming Annual General Meeting. Together with an interim cash dividend of RMB1.8 cents per share, the total cash dividend for the year ended 31 December 2017 will be RMB3.1 cents per share.

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

The register of members of the Company will be closed from Monday, 11 June 2018 to Wednesday, 13 June 2018 (both dates inclusive). In order to qualify for the final cash dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 8 June 2018. The final cash dividend subject to the approval of the Shareholders at the Annual General Meeting, will be payable on or around Wednesday, 20 June 2018 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 13 June 2018.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by EY 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 EY 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 2017 will be dispatched to Shareholders and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 26 March 2018

As at the date of this announcement, the executive directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Mr. Choi Yiau Chong, and Dr. Guo Feng; the non-executive directors of the Company are Mr. Homer Sun and Mr. Kim Jin Ha; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Mr. Zhu Xun.