
Response to Query on Financial Statements and Dividend Announcement for the 12 months ended 31 December 2018 (“Results Announcement”)

The Board of Directors of Pharmesis International Ltd. (“**Company**” together with its subsidiaries, collectively the “**Group**”) wishes to provide the following information in response to an email query from Singapore Exchange Securities Trading Limited (“SGX-ST”) on 6 March 2019.

SGX’s Query

We refer to Pharmesis International Ltd. (“**Pharmesis**” and/or the “**Company’s**”) announcement on 28 February 2019 regarding the Company’s latest unaudited FY2018 statements (“FY2018”).

- 1) We note that in FY2018, the Company received Government grants amounting to RMB 3.7million. Please elaborate on the nature of the Government grants obtained by the Company in FY2018. To disclose details of the government agency; the objective of the grants, what are the conditions of the grants, and when the Company received payment of the grants.

Company’s response:

The Group recognised other income amounting to RMB 3.7million from three Government grants in FY2018. The nature and details of the grants were as follows:

Government Agency	Objective of grant	Condition	When grant was received
Sichuan Provincial Department of Economy and Information	To promote the growth of small medium enterprises of identified industries.	Met the criteria to apply for the grant.	2018
Gulin County Economic Business Technology Bureau	To promote the growth of small medium enterprises of identified industries.	Met the criteria to apply for the grant.	2018
Luzhou Science, Technology and Intellectual Property Bureau	To encourage collaborative research activities of enterprises in line with the national research & development directives.	Carry out the collaborative research project and complete the technical aspects and stages of the project.	Received in 2014, 2015 & 2018

SGX’s Query

- 2) As at 31 December 2018, the Company recorded ‘Other receivables’ of RMB 14.5million. Please provide a breakdown of these Other receivables and the aging schedule in bands of 3 months (with upper limit of the longest due debt specified in bands of 3 months), making reference to the comparative period in the previous year. Please explain the material items and elaborate on the reasons for the increase in Other receivables by 19% when revenue decreased by 7.7% in FY2018.

Company's response:

The Group had other receivables of RMB 14.5 million and RMB 12.2 million as at 31 December 2018 and 31 December 2017 respectively. The increase of RMB 2.3 million was mainly due to the (refundable) deposit of RMB 2.355 million paid for the acquisition of 30% equity of Sichuan Longlife Pharmaceutical Co., Ltd as at 31 December 2018. The breakdown of other receivables as at 31 December 2018 was as follows:

	As at 31.12.2018 RMB'000
Refundable deposit for acquisition of 30% equity of Sichuan Longlife	2,355
Advance payment for purchase of property, plant & equipment	3,596
Advance payment for acquisition of two properties	6,973
Deposits and advances	1,069
Others	537
Other receivables	14,530

SGX's Query

- 3) In FY2018, the Company wrote back doubtful debts (Trade) amounting to RMB 984k. Please explain the Company's policy in treatment for provision and write back of doubtful debts (Trade) and why the variance between FY2017 and FY2018 was not meaningful.

Company's response:

In FY2018, the Group wrote back doubtful debts (Trade) amounting to RMB 984k mainly due to the collection of the receivables during the year. The Group's policy in treatment for provision and write back of doubtful debts (Trade) was in alignment to SFRS(I)9, computed based on Expected Credit Losses(ECL). The variance in percentage (%) between FY2017 and FY2018 would not be meaningful because the two numbers were of opposite signs (one positive and one negative).

SGX's Query

- 4) On a consolidated Group basis, the Company has accumulated reserves of RMB 6.5 million. Please reconcile and explain the reason for not declaring a dividend, as required under paragraph 12 of Appendix 7.2, Listing Manual.

Company's response:

Referring to page 6 of the Company's announcement on 28 February 2019 regarding the Company's latest unaudited FY2018 statements, the Group's accumulated reserves of RMB 6.5 million comprise of statutory reserve of RMB 12.3 million and accumulated losses of RMB 5.8 million. The statutory reserve is not available for dividend distribution to shareholders. No dividend has been declared in view of the accumulated losses.

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
8 March 2019