

**PHARMESIS INTERNATIONAL LTD.**  
(the “**Company**”)  
(Incorporated in the Republic of Singapore)  
(Co. Registration No.: 200309641E)

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**THE PROPOSED ACQUISITION OF 30% OF THE EQUITY INTEREST IN SICHUAN LONGLIFE**

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**1. INTRODUCTION**

The board of directors (“**Board**”) of Pharmesis International Ltd. (“**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that 成都国嘉联合制药有限公司 (Chengdu Kinna Pharmaceutical Co., Ltd) (the “**Purchaser**”), a wholly-owned subsidiary of the Company, has on 31 December 2018 entered into a conditional sale and purchase agreement (the “**SPA**”) to acquire 30% of the equity interest (“**Equity Interest**”) in the registered capital of 四川古藺肝苏药业有限公司 (Sichuan Longlife Pharmaceutical Co., Ltd) (“**Sichuan Longlife**”) from 成都国嘉投资股份有限公司 (Chengdu Kinna Investment Co., Ltd.) (the “**Vendor**”) (the “**Proposed Acquisition**”).

The Proposed Acquisition constitutes a major transaction under Rule 1014 of the listing manual (“**Listing Manual**”) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) which requires approval of the shareholders of the Company (“**Shareholders**”).

**2. BACKGROUND INFORMATION ON THE PURCHASER AND THE VENDORS**

Purchaser

The Purchaser is a wholly-owned subsidiary of the Company and is a limited liability company incorporated in the People’s Republic of China (the “**PRC**”) on 3 November 2003. The Purchaser is engaged in the business of development, manufacture and sale of western medicines and health tonic products.

Vendor

The Vendor is a company limited by shares incorporated in the PRC on 3 April 1996 and is engaged in the business of project investment (which includes investment holding and real estate development) (excluding finance, securities, futures), domestic wholesale and retail of commodity products, other than those which require special separate approval.

For completeness of disclosure, Mr Wu Xuedan (吴学丹) (“**Mr Wu**”), an Executive Director and Chief Executive Officer of the Company, also has a 20.00% equity interest in the capital of the Vendor. However, the Vendor is not considered an “associate” of Mr Wu under Chapter 9 of the Listing Manual. In addition, Mr Jiang Yun (江云) (“**Mr Jiang**”), a former Executive Director and Chief Executive Officer of the Company who had resigned with effect from 31 December 2017, has a 47.00% equity interest in the capital of the Vendor. Mr Jiang is also the legal representative of the Vendor.

### 3. INFORMATION AND VALUATION OF THE EQUITY INTEREST

Sichuan Longlife is a company limited by shares incorporated in the PRC on 29 April 1999 and is engaged in the business of development, manufacture and sale of traditional Chinese medicines (“TCM”). Sichuan Longlife has been the Group’s 51% owned subsidiary since the Group’s initial public offering in 2004.

Sichuan Longlife’s core TCM formulated products comprise of Gansu granules for the treatment of acute and chronic hepatitis and Er Ding granules to treat jaundice, and clear heat and toxics. Sichuan Longlife is an enterprise specialising in the production of Gansu granules. Gansu granules are made from Ganhuangcao which Sichuan Longlife sources from the Wumeng mountains in the PRC. In the PRC, Gansu granules are typically used in the treatment of hepatitis B. Sichuan Longlife’s production plant of approximately 34,570 square metres was constructed based on the GMP (good manufacturing practice) criteria in Gulin, Sichuan Province, PRC in 2003. This production facility was awarded the GMP certification in November 2003. In addition, Gansu granules were awarded the “Products of Designation of Origin and Geographical Indications of the PRC”, which is the first TCM formulated product to receive such protection and recognition. This award is given for the protection of special products with specific nationality, economic and culture characteristics as well as for assurance of quality and reputation of products. In 2017, Sichuan Longlife completed its research and development of our revised product, sugarless Er Ding granules, which has replaced our former product, Er Ding granules with sugar. Sichuan Longlife has started to manufacture our revised product, sugarless Er Ding granules, since the beginning of 2018.

As at the date of the SPA, Sichuan Longlife has a registered capital of RMB21,800,000 and a paid-up registered capital of RMB21,800,000. Based on the unaudited financial statements of Sichuan Longlife for the period from 1 January 2018 to 30 September 2018, the nine (9) months year-to-date net profits attributable to Sichuan Longlife is RMB4,800,000.

Before the Proposed Acquisition, the Purchaser and the Vendor owns 51% and 49% of the total equity interests in Sichuan Longlife, respectively. After the Proposed Acquisition, the Purchaser and the Vendor will own 81% and 19% of the total equity interests in Sichuan Longlife, respectively.

In connection with the Proposed Acquisition, the Purchaser and Vendor jointly appointed an independent valuer, Chengdu Chuanheng Assets Appraisal Firm (LLP) (“**Valuer**”), to assess and determine the net asset value of the Equity Interest. Based on the valuation report in respect of the Equity Interest dated 17 December 2018, issued by the Valuer (the “**Valuation Report**”), the net asset value of the Equity Interest as at 30 September 2018 was approximately RMB16,600,000.

The Valuation Report was prepared in accordance with the Basic Principle and Code of Professional Ethics of Assets Appraisal issued by the Assets Appraisal Association of the PRC.

The Valuer adopted the cost method in arriving at the valuation of the Equity Interest. The cost method is also known as the asset-based method, which seeks to evaluate the total value of the company based on the overall assets value, by a reasonable assessment of the value of the various assets and liabilities of the company.

### 4. RATIONALE FOR THE PROPOSED ACQUISITION

The prescribed drugs’ business environment has been challenging for the past few years due to the price cuts imposed by the PRC government. Therefore, the Group has been focusing

on non-prescribed drugs such as Er Ding and Gansu for the past few years. As a result, Sichuan Longlife's revenue and profits have been improving over these two (2) years. Accordingly, the directors of the Company ("**Directors**") are of the view that the Proposed Acquisition is in the best interests of the Company and its Shareholders as it will increase the Company's investment in its non-prescribed drugs portfolio, and also enable the Company to consolidate a higher percentage of Sichuan Longlife's profits instead of the current 51% and improve the Group's profitability.

## 5. SALIENT TERMS OF THE SPA

### (a) Conditions precedent

The Proposed Acquisition is conditional on, *inter alia*, the following:

- (i) the Purchaser having obtained the approval of its shareholder and the Company having received the requisite approval(s) from its Shareholders under Chapter 10 of the Listing Manual at an extraordinary general meeting to be convened by the Company ("**EGM**") for, *inter alia*, the Proposed Acquisition (the "**Shareholders' Approval**");
- (ii) the State Administration for Industry and Commerce and its local counterpart (the "**SAIC**") having issued the notice of de-registration for the discharge of the pledge created by the Vendor in favor of Shanghai Pudong Development Bank, Chengdu Branch over 49% equity shares of Sichuan Longlife (the "**Share Pledge**"), and the Share Pledge has in fact been duly de-registered in accordance with PRC laws; and
- (iii) the issuance of the approval notice to Sichuan Longlife by the SAIC, according to which the Purchaser has in fact been registered as the shareholder of Sichuan Longlife holding the Equity Interest in accordance with PRC laws.

If the Shareholders' Approval is not obtained on or before 31 March 2019 or such other date as the parties shall mutually agree in writing, the SPA shall cease and be terminated and neither party shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a party arising from an antecedent breach by the other party of the terms thereof.

### (b) Purchase consideration

The aggregate purchase consideration payable by the Group for the Equity Interest ("**Purchase Consideration**") shall be the sum of RMB15,700,000, to be paid in two (2) instalments as follows:

- (i) the first instalment equivalent to 15% of RMB15,700,000 shall be paid by the Purchaser to the Vendor within 15 days after signing the SPA; the Vendor shall refund to the Purchaser the full amount that has been paid by the Purchaser within 15 days in the event that any one of the conditions in paragraph 5(a) above cannot be met or the SPA is terminated; and
- (ii) the second installment equivalent to 85% of RMB15,700,000 shall be paid by the Purchaser to the Vendor within 60 days after the date of completion of the SPA.

The Purchase Consideration is determined based on the valuation in a valuation report by an external valuer and negotiated on a willing buyer willing seller basis. The Purchase Consideration represents a discount of approximately 5.0% from the market value of the Equity Interest.

The Group intends to use internal sources of funds to finance the Proposed Acquisition.

(c) Transaction steps

- (i) Within five (5) business days after the date of the Shareholders' Approval:
  - (A) the Vendor shall de-register the Share Pledge at the SAIC and obtain the notice of de-registration for the discharge of the Share Pledge indicating that the Share Pledge having been duly de-registered in accordance with PRC laws; and
  - (B) the parties shall prepare the necessary documents respectively to complete legal transfer of the Equity Interest and resignation of the officers appointed by the Vendor.
- (ii) Within 10 business days after the date of the Shareholders' Approval:
  - (A) the Vendor (or its nominee) shall proceed to the SAIC with respect to the transfer of the Equity Interest and the change of officers from those appointed by Vendor to those appointed by the Purchaser; and
  - (B) the Vendor (or its nominee) shall obtain the new business license of the Company and the approval notice issued by the SAIC to Sichuan Longlife, according to which the Purchaser has in fact been registered as the shareholder of Sichuan Longlife holding the Equity Interest in accordance with PRC laws.
- (iii) On the fifth business day following the date when the SAIC issues the approval notice, according to which the Purchaser has in fact been registered as the shareholder of Sichuan Longlife holding the Equity Interest in accordance with PRC laws, the parties shall proceed with completion. For the purpose of effecting completion, the Vendor shall deliver all the seals, certificates, documents and materials of Sichuan Longlife to the Purchaser.

## **6. RELATIVE FIGURES UNDER CHAPTER 10 OF THE LISTING MANUAL**

### **6.1 General**

Under Chapter 10 of the Listing Manual, a transaction will be classified as a "major transaction" if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual exceeds 20% and if so, Shareholders' approval must be obtained for the "major transaction".

## 6.2 Relative Figures under Rule 1006 of the Listing Manual

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual in respect of the aggregate consideration for the Proposed Acquisition and based on the unaudited consolidated financial statements of the Group for the nine (9) months ended 30 September 2018 (“**3Q2018**”) are set out below.

Rule 1006(a) – the net asset value of the assets to be disposed of, compared with the Group’s net asset value	Not applicable as this transaction is not a disposal of assets.
Rule 1006(b) – the net profits attributable to the assets to be acquired compared with Group’s net profits	93%
Rule 1006(c) – the aggregate value of the consideration given, compared with the Company’s market capitalisation based on the total number of issued shares excluding treasury shares	55%
Rule 1006(d) – the number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no equity securities will be issued as consideration for the Proposed Acquisition.
Rule 1006(e) – the aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group’s proved and probable reserves	Not applicable as the Company is not a mineral, oil and gas company.

## 6.3 Major Transaction

As the relative figures computed on the bases above exceed 20% as at the date of this Announcement, the Proposed Acquisition constitutes a “major transaction” as defined in Chapter 10 of the Listing Manual and is accordingly subject to approval by Shareholders at the EGM.

## 7. **FINANCIAL EFFECTS**

The financial effects of the Proposed Acquisition on the Group set out below are purely for illustrative purposes only and do not reflect the future financial position of the Group after the completion of the Proposed Acquisition.

The *proforma* financial effects have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 (“**FY2017**”), being the end of the most recently completed financial year, and the latest announced unaudited consolidated financial statements of the Group for 3Q2018.

(a) Net tangible assets (“NTA”) per Share – FY2017

Had the Proposed Acquisition been effected on 31 December 2017, the Proposed Acquisition would have had the following financial effects on the Group’s NTA per share as at 31 December 2017:

For FY2017	Before Proposed Acquisition	After Proposed Acquisition
NTA (RMB’000)	87,726	75,065
Number of Shares (’000)	23,000	23,000
NTA per Share (RMB)	3.81	3.26

(b) NTA per Share – 3Q2018

Had the Proposed Acquisition been effected on 30 September 2018, the Proposed Acquisition would have had the following financial effects on the Group’s NTA per share as at 30 September 2018:

For 3Q2018	Before Proposed Acquisition	After Proposed Acquisition
NTA (RMB’000)	86,696	75,342
Number of Shares (’000)	23,000	23,000
NTA per Share (RMB)	3.77	3.28

(c) Earnings per Share (“EPS”) – FY2017

Had the Proposed Acquisition been effected on 1 January 2017, the Proposed Acquisition would have had the following financial effects on the Group’s EPS for FY2017:

For FY2017	Before Proposed Acquisition	After Proposed Acquisition
Group loss after tax (RMB’000)	(2,477)	(2,078)
Weighted average number of Shares (’000)	23,000	23,000
EPS (RMB cents)	(10.8)	(9.0)

- (d) EPS – Nine (9) months year-to-date for the financial year ended 31 December 2018 (“9M YTD FY2018”)

Had the Proposed Acquisition been effected on 1 January 2018, the Proposed Acquisition would have had the following financial effects on the Group’s EPS for 9M YTD FY2018:

<b>For 9M YTD FY2018</b>	<b>Before Proposed Acquisition</b>	<b>After Proposed Acquisition</b>
Group (loss)/profit after tax (RMB'000)	(1,030)	277
Weighted average number of Shares ('000)	23,000	23,000
EPS (RMB cents)	(4.5)	1.2

## 8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN THE PROPOSED ACQUISITION

Save as disclosed in this Announcement, to the best knowledge of the Directors, none of the other Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition.

## 9. SERVICE AGREEMENTS

No new directors are proposed to be appointed to the Board in connection with the Proposed Acquisition. As such, no service agreements will be entered into with any new director of the Company in connection with the transaction.

## 10. FURTHER INFORMATION

### 10.1 Documents for inspection

Copies of the SPA and the Valuation Report are available for inspection during normal business hours at the registered office of the Company at 5 Kallang Sector #03-02, Singapore 349279 for a period of three (3) months from the date of this Announcement.

### 10.2 Circular

A circular (“**Circular**”) setting out, *inter alia*, the details of the Proposed Acquisition and such other information as prescribed under Chapter 10 of the Listing Manual, together with a notice of the EGM to be convened, will be despatched by the Company to its Shareholders in due course. The Proposed Acquisition is conditional, *inter alia*, on the Company obtaining approval of its Shareholders (other than Mr Wu and his associates, who will abstain from voting) at the EGM to be convened.

**11. CAUTION IN TRADING**

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Company's securities. When in doubt, Shareholders and potential investors are advised to seek independent advice from their stockbrokers, bank managers, solicitors, accountants or other professional advisers.**

BY ORDER OF THE BOARD

Wu Xuedan  
Executive Director and Chief Executive Officer

31 December 2018