

# PHARMESIS INTERNATIONAL LTD.

Co. Registration No. 200309641E

## Financial Statements and Dividend Announcement for the 6 months ended 30 June 2014

### PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF YEAR AND FULL YEAR RESULTS

- 1(a)(i)** An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

#### 1. UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SECOND QUARTER ENDED 30 JUNE 2014

	Group			Group		
	3 months ended	3 months ended		6 months ended	6 months ended	
	30.06.2014	30.06.2013	+ / (-)	30.06.2014	30.06.2013	+ / (-)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
<b>Revenue</b>	14,552	15,104	(3.7)	27,986	30,272	(7.6)
Cost of sales	(6,200)	(6,252)	(0.8)	(12,380)	(12,375)	0.0
<b>Gross Profit</b>	<b>8,352</b>	<b>8,852</b>	(5.6)	<b>15,606</b>	<b>17,897</b>	(12.8)
Other Income	-	1	(100.0)	8	1	700.0
Selling and distribution costs	(6,337)	(6,627)	(4.4)	(11,939)	(12,649)	(5.6)
Administrative costs	(3,056)	(3,492)	(12.5)	(6,493)	(7,661)	(15.2)
<b>Loss from operations</b>	<b>(1,041)</b>	<b>(1,266)</b>	(17.8)	<b>(2,818)</b>	<b>(2,412)</b>	16.8
Finance income	785	26	2,919.2	1,504	55	2,634.5
Finance costs	(100)	(6)	1,566.7	(168)	(13)	1,192.3
<b>Net finance income</b>	<b>685</b>	<b>20</b>	3,325.0	<b>1,336</b>	<b>42</b>	3,081.0
<b>Loss before tax</b>	<b>(356)</b>	<b>(1,246)</b>	(71.4)	<b>(1,482)</b>	<b>(2,370)</b>	(37.5)
Income tax expense	-	-	-	-	-	-
<b>Loss for the period</b>	<b>(356)</b>	<b>(1,246)</b>	(71.4)	<b>(1,482)</b>	<b>(2,370)</b>	(37.5)
<b>Attributable to:</b>						
<b>Equity holders of the Company</b>	<b>(119)</b>	<b>(1,135)</b>	(89.5)	<b>(578)</b>	<b>(2,140)</b>	(73.0)
Minority interest	(237)	(111)	113.5	(904)	(230)	293.0
<b>Loss for the period</b>	<b>(356)</b>	<b>(1,246)</b>	(71.4)	<b>(1,482)</b>	<b>(2,370)</b>	(37.5)

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

(a) Loss for the period is arrived at after crediting/(charging):-

	Group			Group		
	3 months ended	3 months ended		6 months ended	6 months ended	
	30.06.2014	30.06.2013	+ / (-)	30.06.2014	30.06.2013	+ / (-)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Interest Income	785	26	2,919.2	1,504	55	2,634.5
Allowance for doubtful debts	(99)	(272)	(63.6)	(318)	(196)	62.2
Depreciation and amortisation	(724)	(915)	(20.9)	(1,450)	(1,825)	(20.5)
Foreign exchange (loss)/gain	(3)	(9)	(66.7)	8	(12)	n.m

(b) Certain comparative figures have been restated to conform to current period's presentation.

n.m. denotes not meaningful

## 2. UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

	Group			
	3 months ended	3 months ended	6 months ended	6 months ended
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the period	(356)	(1,246)	(1,482)	(2,370)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>(356)</b>	<b>(1,246)</b>	<b>(1,482)</b>	<b>(2,370)</b>
Total comprehensive income attributable to:				
<b>Equity holders of the Company</b>	<b>(119)</b>	<b>(1,135)</b>	<b>(578)</b>	<b>(2,140)</b>
Minority interest	(237)	(111)	(904)	(230)
	<b>(356)</b>	<b>(1,246)</b>	<b>(1,482)</b>	<b>(2,370)</b>

1(b)(i)

A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

**UNAUDITED STATEMENTS OF FINANCIAL POSITION**

	GROUP		COMPANY	
	As at 30/06/2014 RMB'000	As at 31/12/2013 RMB'000	As at 30/06/2014 RMB'000	As at 31/12/2013 RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	14,580	15,262	73	87
Land use rights	3,101	3,152	-	-
Intangible assets	4,004	4,453	-	-
Investment in subsidiaries	-	-	54,999	54,999
Goodwill on consolidation	1,323	1,323	-	-
	<b>23,008</b>	<b>24,190</b>	<b>55,072</b>	<b>55,086</b>
<b>Current assets</b>				
Structured deposit	15,000	15,000	-	-
Inventories	5,894	5,749	-	-
Trade receivables	21,726	29,562	-	-
Prepaid expenses	410	241	26	59
Other receivables	7,535	3,568	21	21
Tax recoverable	328	328	-	-
Cash and cash equivalents	31,292	22,950	1,193	3,062
	<b>82,185</b>	<b>77,398</b>	<b>1,240</b>	<b>3,142</b>
<b>Current liabilities</b>				
Bank borrowing	5,000	-	-	-
Trade payables	2,237	1,783	-	-
Accrued liabilities and other payables	2,937	3,304	491	750
Tax payable	10	10	10	10
	<b>10,184</b>	<b>5,097</b>	<b>501</b>	<b>760</b>
<b>Net current assets</b>	<b>72,001</b>	<b>72,301</b>	<b>739</b>	<b>2,382</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	488	488	488	488
	<b>488</b>	<b>488</b>	<b>488</b>	<b>488</b>
<b>Net assets</b>	<b>94,521</b>	<b>96,003</b>	<b>55,323</b>	<b>56,980</b>
<b>Equity attributable to equity holders of the Company</b>				
Share capital	77,315	77,315	77,315	77,315
Reserves	13,230	13,808	(21,992)	(20,335)
<b>Share capital and Reserves</b>	<b>90,545</b>	<b>91,123</b>	<b>55,323</b>	<b>56,980</b>
Non-controlling interest	3,976	4,880	-	-
<b>Capital Employed</b>	<b>94,521</b>	<b>96,003</b>	<b>55,323</b>	<b>56,980</b>

**1(b)(ii) Aggregate amount of group's borrowing and debt securities**

**Amount repayable in one year or less, or on demand**

In RMB'000

As at 30 June 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
5,000	-	-	-

**Amount repayable after one year**

In RMB'000

As at 30 June 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**Details of any collateral**

The bank borrowing is secured over the land use rights and buildings of a subsidiary.

- 1(c) **A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2014**

	Group			
	3 months ended 30.06.2014 RMB'000	3 months ended 30.06.2013 RMB'000	6 months ended 30.06.2014 RMB'000	6 months ended 30.06.2013 RMB'000
<b>Cash flows from operating activities</b>				
Loss before tax	(356)	(1,246)	(1,482)	(2,370)
Adjustments for:				
Allowance for doubtful debts	99	272	318	196
Depreciation and amortisation	724	915	1,450	1,825
Interest income	(785)	(26)	(1,504)	(55)
Operating loss before changes in working capital	(318)	(85)	(1,218)	(404)
Changes in working capital				
Trade receivables	3,086	291	7,518	3,139
Prepayments, deposits and other receivables	(594)	(984)	(2,676)	(286)
Inventories	70	532	(145)	573
Trade payables	430	539	454	(352)
Accrued liabilities and other payables	38	(90)	(367)	(869)
Cash generated from operations	2,712	203	3,566	1,801
Interest received	26	26	44	55
Income tax paid	-	-	-	-
<b>Net cash flows from operating activities</b>	<b>2,738</b>	<b>229</b>	<b>3,610</b>	<b>1,856</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(185)	(11)	(268)	(121)
<b>Net cash flows used in investing activities</b>	<b>(185)</b>	<b>(11)</b>	<b>(268)</b>	<b>(121)</b>
<b>Cash flows from financing activities</b>				
Proceeds from bank borrowing	-	-	5,000	-
Proceeds from maturity of structured deposit	-	-	-	11,000
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>11,000</b>
Net increase in cash and cash equivalents	2,553	218	8,342	12,735
Cash and cash equivalents at beginning of period	28,739	38,302	22,950	25,785
<b>Cash and cash equivalents at end of period</b>	<b>31,292</b>	<b>38,520</b>	<b>31,292</b>	<b>38,520</b>

- 1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

#### **UNAUDITED STATEMENTS OF CHANGES IN EQUITY**

<b><u>Group</u> <u>In RMB'000</u></b>	<b>Attributable to equity holders of the Company</b>					<b>Minority Interest</b>	<b>Total Equity</b>
	<b>Share Capital</b>	<b>Employee Share Options Reserve</b>	<b>Statutory Reserve</b>	<b>Accumulated Profits</b>	<b>Total</b>		
<b>At 1 January 2014</b>	77,315	4,431	11,924	(2,547)	91,123	4,880	96,003
Total comprehensive income	-	-	-	(459)	(459)	(667)	(1,126)
<b>At 31 March 2014</b>	77,315	4,431	11,924	(3,006)	90,664	4,213	94,877
Total comprehensive income	-	-	-	(119)	(119)	(237)	(356)
<b>At 30 June 2014</b>	<b>77,315</b>	<b>4,431</b>	<b>11,924</b>	<b>(3,125)</b>	<b>90,545</b>	<b>3,976</b>	<b>94,521</b>
<b>At 1 January 2013</b>	77,315	5,061	11,568	(3,296)	90,648	4,392	95,040
Total comprehensive income	-	-	-	(1,005)	(1,005)	(119)	(1,124)
<b>At 31 March 2013</b>	77,315	5,061	11,568	(4,301)	89,643	4,273	93,916
Total comprehensive income	-	-	-	(1,135)	(1,135)	(111)	(1,246)
<b>At 30 June 2013</b>	<b>77,315</b>	<b>5,061</b>	<b>11,568</b>	<b>(5,436)</b>	<b>88,508</b>	<b>4,162</b>	<b>92,670</b>

<b><u>Company</u> <u>In RMB'000</u></b>	<b>Share Capital</b>	<b>Employee Share Options Reserve</b>	<b>Accumulated Losses</b>	<b>Total Equity</b>
<b>At 1 January 2014</b>	77,315	4,431	(24,766)	56,980
Total comprehensive income	-	-	(853)	(853)
<b>At 31 March 2014</b>	77,315	4,431	(25,619)	56,127
Total comprehensive income	-	-	(804)	(804)
<b>At 30 June 2014</b>	<b>77,315</b>	<b>4,431</b>	<b>(26,423)</b>	<b>55,323</b>
<b>At 1 January 2013</b>	77,315	5,061	(25,928)	56,448
Total comprehensive income	-	-	(862)	(862)
<b>At 31 March 2013</b>	77,315	5,061	(26,790)	55,586
Total comprehensive income	-	-	(753)	(753)
<b>At 30 June 2013</b>	<b>77,315</b>	<b>5,061</b>	<b>(27,543)</b>	<b>54,833</b>

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

**Share Capital**

There is no change in the Company's issued share capital since the previous financial period ended 31 March 2014.

**Share Options**

During 2Q 2014, there was no share option (2Q 2013: Nil) granted under the Pharmesis Share Option Scheme. As at 30 June 2014, there were unexercised options for 10,200,000 (30 June 2013: 11,650,000) of ordinary shares under the Company's Share Option Scheme.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

Total number of issued shares as at:  
30 June 2014 and 31 December 2013 - 200,000,000 ordinary shares

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the Company's auditors.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those applied for the audited financial statements for the year ended 31 December 2013.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:-**

In RMB cents	Group			
	3 months ended 30.06.2014	3 months ended 30.06.2013	6 months ended 30.06.2014	6 months ended 30.06.2013
(i) Based on weighted average number of shares	(0.06)	(0.57)	(0.29)	(1.07)
Weighted average number of shares	200,000,000	200,000,000	200,000,000	200,000,000
(ii) On a fully diluted basis*	(0.06)	(0.57)	(0.29)	(1.07)
Adjusted weighted average number of shares	200,000,000	200,000,000	200,000,000	200,000,000

\*As at balance sheet date, the Company has outstanding share options granted to employees amounted to 10,200,000 (30 June 2013: 11,650,000). Since the exercise price of these share options are above the quoted market price of the Company's shares for the periods, the options are non-dilutive. As such, the options have no dilution effect on the earnings per share of the Group for the periods.

**7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**

- (a) current financial period reported on; and  
(b) immediately preceding financial year.

In RMB cents	Group		Company	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Net asset value per ordinary share	45.27	45.56	27.66	28.49
No. of shares in computing NAV	200,000,000	200,000,000	200,000,000	200,000,000

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**

(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

**INCOME STATEMENT**

The Group's revenue decreased by RMB 0.5 million or 3.7% from RMB 15.1 million for 2Q 2013 to RMB 14.6 million for 2Q 2014 mainly due to lower demand for the Group's prescribed products namely ATT and Gansu.



Gross profit margin decreased from 58.6% in 2Q 2013 to 57.4% in 2Q 2014 following higher contribution from OTC products where margins are lower.

Selling and distribution costs decreased by RMB 0.3 million or 4.4% to RMB 6.3 million in 2Q 2014 due to a reduction of sales headcount. Administrative costs decreased to RMB 3.1 million in 2Q 2014 mainly due to results from cost containment efforts (from lower administrative headcount and rental).

Finance income increased for 2Q 2014 mainly due to interest income on the structured deposit. Finance costs were primarily interest charges for a RMB 5.0 million bank borrowing which Longlife took up to partially repay Kinna for its intercompany loan.

As a result of the above, the Group's net loss attributable to shareholders reduced to RMB 0.1 million for 2Q 2014.

### **STATEMENT OF FINANCIAL POSITION**

The Group's non-current assets were RMB 23.0 million as at 30 June 2014, a decrease of RMB 1.2 million from RMB 24.2 million as at 31 December 2013. This was mainly due to depreciation of the Group's property, plant and equipment and amortisation of its land use rights and intangible assets.

The Group's current assets were RMB 82.2 million as at 30 June 2014, an increase of RMB 4.8 million from RMB 77.4 million as at 31 December 2013. This was mainly due to higher cash and cash equivalents and other receivables. Cash and cash equivalents increased due to cash received following repayment of the RMB 5.0 million loan from Longlife. Other receivables increased due to advances to salesmen, advances to staff for cash purchases and accrual of interest receivable from structured deposit for the 6 months period under review. Better collections attributed to lower trade receivables for the period under review.

The Group's current liabilities were RMB 10.2 million as at 30 June 2014, an increase of RMB 5.1 million from RMB 5.1 million as at 31 December 2013 mainly due to bank borrowing which Longlife took up to repay Kinna.

### **STATEMENT OF CASH FLOWS**

Despite an operating loss, the Group registered a net cash inflow from operating activities of RMB 3.6 million in the 6 months period ended 30 June 2014 mainly due to collections from trade debtors.

Net cash used by investing activities amounted to RMB 0.3 million, mainly for the purchase of plant equipment.

Net cash inflow of RMB 5.0 million from financing activities was due to proceeds from a bank borrowing.

As at 30 June 2014, the Group had a cash and cash equivalents of RMB 31.3 million.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

In line with the prospect statement made in 1Q 2014.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

Ongoing health reforms and competition in the PRC continue to pose great challenges and restrict organic growth of the Group. Our prescribed products, especially ATT and Gansu, will continue to face significant pricing pressure as they are under price-cap regulation and have to go through price bidding. Whilst our distribution business segment continues to expand, its contribution to the Group remains small due to its low margin.

Nevertheless, management remains committed and is on the lookout for new business opportunities that will help the future growth of the Group.

**11. Dividend**

**(a) Current Financial Period Reported On**

None.

**(b) Corresponding Period of the Immediately Preceding Financial Year**

None.

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommendeded, a statement to that effect.**

No dividends have been recommended for the current financial period ended 30 June 2014.

**13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

The Group has not obtained a general mandate from shareholders for IPTs.

**14. Negative confirmation pursuant to Rule 705(5).**

The Board of Directors of Pharmesis International Ltd. hereby confirms that, to the best of their knowledge, nothing has come to their attention which may render the unaudited financial statements for the second quarter ended 30 June 2014 to be false or misleading in any material aspect.

**BY ORDER OF THE BOARD**

**WU XUEDAN  
EXECUTIVE DIRECTOR**

**25 July 2014**