PHARMESIS

PHARMESIS INTERNATIONAL LTD.

ADAPT INNOVATE AND GROW

ANNUAL REPORT

2021

CONTENTS

CORPORATE PROFILE

Listed on the Main Board of the Singapore Exchange in October 2004, Pharmesis International Ltd. specialises in the manufacture of pharmaceutical products, including western medicine and Traditional Chinese Medicine ("TCM").

Under our two subsidiaries, Chengdu Kinna Pharmaceutical Co., Ltd and Sichuan Longlife Pharmaceutical Co., Ltd, we specialise in the manufacturing of pharmaceutical products in the form of tablets, granules, pills, etc, including TCM formulated products for the treatment of illnesses relating to the liver and gall bladder. Additionally, our business also includes research and development, production, sale and marketing of pharmaceutical products.

Our pharmaceutical products are sold in the People's Republic of China ("PRC") under the "国嘉" brand. Our main products are ATT, Gulin Gansu and Er Ding granules. Our Gulin Gansu is under the National TCM Protection List and is also the first TCM formulated products to be awarded the "Product of Designation of Origin and Geographical Indications of the PRC".

Leveraging our strong research and development capabilities and in-house expertise in pharmaceutical products for the treatment of illnesses relating to the liver and gall bladder, we successfully improved the coating technology of ATT tablets and had received several awards in recognition of this achievement.

In 2009, we acquired a wholly-owned subsidiary, Chengdu Pharmesis Pharmaceutical Co., Ltd. With this acquisition, the Group successfully expanded into the distribution of pharmaceutical products.

Comprising an established extensive sales and marketing network across the PRC, our products can be found in 2,000 hospitals in many cities within the PRC. As well-recognised brand names of pharmaceutical products in PRC, Pharmesis' line of products have received wide acceptance and numerous awards associated with delivering quality and safe products. By adopting an integrated business model, we aim to provide a one-stop solution to our customers in the PRC, with our research and development, manufacturing and distribution services.

OUR PRODUCTS

Pharmesis International Ltd., is a pharmaceutical company in the PRC which can trace its origins back to 1996. Our pharmaceutical products include prescribed drugs and over-the-counter (OTC) drugs. Pharmaceutical products include western medicine products and TCM formulated products under the "国嘉" brand.

Our two GMP-compliant production facilities, with a total land area of approximately 41,000 sqm, are located in Chengdu and Gulin, PRC. We emphasize strict quality control procedures for our products at every stage of our production process, from the selection of raw materials up to finished products.

GANSU
古蔺肝苏

USAGE
Treatment of acute and chronic hepatitis

FORM
Granules, Tablets and Capsules

功能主治
用于慢性活动性肝炎、乙型肝炎、
也可用于急性病毒性肝炎。

类型
颗粒、片剂、胶囊

ATT (ANETHOLE TRITHIONE)
茴三硫

USAGE
Treatment of illness relating to the liver and gall bladder

FORM
Tablets and Capsules

功能主治
用于胆囊炎、胆结石以及急、
慢性肝炎的辅助治疗。

类型
片剂、胶囊

XIAO SHI JIAN PI
消食健脾

USAGE
Treatment of flatus, inappetency, dyspepsy and spleen weakness

FORM
Tablets

功能主治
消食、健脾。用于脘腹胀满。
伤食呕恶、小儿厌食、消化不良、脾胃虚弱。

类型
片剂

ER DING
二丁

USAGE
Treatment of jaundice, clears heat toxin

FORM
Granules

功能主治
消热解毒、利湿退黄。
用于热疖痈毒、湿热黄疸、外感风热等症

类型
颗粒

OUR PRODUCTS

SHULINGHOU
舒灵喉

USAGE

Clears heat and regenerate body fluid.
Treatment of acute and chronic pharyngitis, laryngitis, sore throat and hoarseness

FORM

Tablets

功能主治

消热解毒、润燥生津。用于急、慢性咽炎、喉炎，以及因用噪过度引起的咽喉疼痛，声音嘶哑等。

类型

片剂

LIANPU SHUANGQING
連蒲双清

USAGE

Treatment of acute inflammation such as dysentery and intestinal infection

FORM

Tablets

功能主治

消热解毒、燥湿止痢。

类型

片剂

XIAOLUOTONG
消络痛

USAGE

Dispels wind, dampness. For rheumatoid arthritis and other rheumatic diseases

FORM

Capsules

功能主治

散风、祛湿。
用于风湿性关节炎及其他风湿性疾病

类型

胶囊

AFENKA
阿酚咖

USAGE

Treatment of migraine, relieves pain from headache, cold, nasosinusitis, muscle pain, menstrual pain, toothache and arthritis

FORM

Tablets

功能主治

用于治疗偏头痛和暂时缓解轻度的持续性 隐痛以及头痛、鼻窦炎、感冒、肌肉疼痛、 经前与经期疼痛、牙痛和关节炎痛。

类型

片剂

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

On behalf of our Board of Directors, we are pleased to present our annual report for the financial year ended 31 December 2021 (“FY2021”).

FY2021 was a challenging year as the world continued to battle against the COVID-19 pandemic, with new variants detected throughout the year. The measures taken by countries to curb it, such as border closures and national lockdowns, continued to have a devastating impact on people, businesses and economies globally. The Group’s operations were fortunate to be unaffected by the COVID-19 pandemic in FY2021. But FY2021 continued to be another challenging year for the pharmaceutical industry in the People’s Republic of China (“PRC”). In early 2021, the China government has decided to advance the coordinated reforms of medical services, medical insurance and pharmaceuticals, and put centralized bulk-buying on a regular and institutionalized basis. The Group’s business environment remains challenging as our drugs continue to face intense competition and pricing pressure. Despite the challenging environment, the Group managed to achieve a net profit in FY2021.

YEAR IN REVIEW

In financial year 2021, the Group registered total revenue of RMB52.8 million, compared with revenue of RMB47.1 million in the previous year, an increase of 12.0%. This was mainly due to higher sales of both prescribed and non-prescribed drugs. Revenue from Group’s non-prescribed drugs segment increased by RMB5.1 million and revenue from prescribed drugs segment increased by RMB0.6 million.

The larger increase in revenue from lower margin non-prescribed drugs/distribution segment as compared to the increase in revenue from the prescribed drugs segment caused the decrease in gross profit margin from 50.6% in FY2020 to 47.4% in FY2021.

Facility at Jiangyou (江油设施)

Other income increased by RMB1.4 million from RMB0.7 million in FY2020 to RMB2.1 million in FY2021 mainly due to higher government grant in FY2021.

Selling and distribution costs decreased by RMB3.1 million or 17.2% from RMB17.8 million in FY 2020 to RMB14.7 million in FY 2021 mainly due to lower advertising and selling expenses. Administrative costs decreased by RMB1.2 million or 11.4% from RMB10.4 million in FY 2020 to RMB9.2 million in FY 2021 mainly due to RMB0.5 million decrease in R&D expenses, RMB0.3 million in entertainment expenses, RMB0.2 million decrease in repairs & maintenance expenses, and lower personnel expenses by RMB0.2 million.

LETTER TO SHAREHOLDERS

Office at Ying Bin Street (迎宾大道办公室)

Other costs for FY2021 was nil as there was no impairment loss on property, plant and equipment. Finance income decreased from RMB37,000 in FY 2020 to RMB30,000 in FY 2021, mainly due to lower finance income from cash and cash equivalents. Finance costs increased from RMB0.9 million in FY2020 to RMB1.1 million in FY 2021.

As a result of the above, the Group recorded a net profit attributable to shareholders of RMB1.2 million for FY2021 compared to a net loss of RMB5.8 million for FY2020.

INDUSTRY OUTLOOK

In February 2022, the China government said that it will continue to expand the list of drugs and medical consumables included in China's bulk-buy program, which is expected to cover traditional Chinese medicines and more orthopedic and dental implants this year. The outlook for the year ahead remains challenging as our drugs continue to face intense competition, inflationary and pricing pressure, along with the global and domestic economic uncertainties due to the COVID-19 pandemic. The highly transmissible omicron variant has caused a renewed surge in Covid-19 infections globally including China which maintains a zero Covid-19 policy. The Group maintains a "cautious outlook", amid the fluid, evolving situation of the Covid-19 pandemic. Management will continue to operate cautiously, improving sales and managing costs effectively.

FOCUS ON RESEARCH AND DEVELOPMENT

We will continue to focus on the research and development activities with the aim of improving our existing range of products as well as innovating new products. As part of our strategy to increase the range of products, the Group is working towards the launch of a new product later this year.

LETTER TO SHAREHOLDERS

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board, we would like to express our gratitude to the management team and the staff for their hard work and commitment in 2021. Without their dedication and efforts, we would not be able to achieve a commendable performance this year. Our greatest thanks also go out to our customers and suppliers for their unwavering support and trust. We would like to extend our heartfelt gratitude to our shareholders who have gone through many ups and downs with us. With your support, we are motivated to achieve greater success. Last but not least, we would like to thank our fellow Board members for their guidance and counsel during the year.

CHEW HENG CHING
Independent Non-Executive Chairman

WU XUEDAN
Chief Executive Officer and Executive Director

Chengdu Kinna Pharmaceutical Co., Ltd

Sichuan Longlife Pharmaceutical Co., Ltd

主席及总裁献词

各位尊敬的股东，

我们谨仅代表董事会呈现截至2021年12月31日（“2021财年”）的业绩及业务报告。

2021财年是充满挑战的一年，因为世界继续与新冠疫情和新的变种病毒战斗。各国为遏制疫情蔓延而采取的措施，例如关闭边境和全国封锁，持续对全球人民、企业和经济产生了巨大的负面影响。幸运的是，集团的运营在2021财年没有受到新冠疫情的影响。2021财年对中国的制药行业来说仍然是充满挑战的一年。2021年初，中国决定推进医疗服务，医疗保险和药品的协调改革，并定期，制度化地进行集中大量购买。随着我们的药品继续面临激烈的竞争和价格压力，集团的商业环境仍然充满挑战。尽管环境充满挑战，集团仍在2021财年取得利润。

年度回顾

在2021财年，集团的营业收入是人民币5,280万元，同比去年的人民币4,710万元增长12%。这主要是由于处方药和非处方药的销售增长，集团非处方药的收入增加了人民币510万元，处方药的收入增加了人民币60万元。

毛利率从2020财年的50.6%下降至2021财年的47.4%，主要是由于这两个部门的成本上升。其他收入从2020财年的70万元增加140万元至2021财年的210万元，主要是由于2021财年政府补助增加。

销售和分销成本从2020财年的人民币1,780万元减少至2021财年的人民币1,470万元，减少了人民币310万元或17.2%，主要是由于广告和销售费用降低。管理成本从2020财年的1,040万元减少至2021财年的920万元，减少120万元或11.4%，主要是由于研发费用减少50万元，娱乐费用减少30万元，维修和保养费用减少20万元费用，人事费用减少20万元。

2020年的其他费用为110万元人民币，包括江油在建工程的80万减值损失，物业，厂房和设备的50万元人民币减值以及使用权资产的减值损失调整回20万元人民币。财务收入从2020财年的人民币37,000元减少至2021财年的人民币30,000元，主要是由于现金及的财务收入减少。财务成本从2020财年的90万元人民币增加到2021财年的110万元人民币。

由于上述原因，本集团于2021财年录得归属于股东的净利润为人民币120万元，而2020财年为人民币580万元的净亏损。

主席及总裁献词

行业展望

2022年2月，中国政府表示将继续扩大采购计划下的药品和医疗清单，预计将涵盖传统中药，和更多的骨科和植牙科物品。随着我们的药物继续面临激烈的竞争、通货膨胀和价格压力，以及疫情导致全球和国内经济的不确定性，今年的前景仍然充满挑战。高度传播性的奥密克戎变异新冠病毒已导致全球新冠疫情感染人数再次激增，包括新冠清零政策的中国在内。集团将继续审慎经营，确保拥有足够的资源，改善销售，保持较低的经营成本和业务生存。

专注于研究与开发

我们将继续专注于研发活动，目的在于改善现有产品以及研发新产品。作为我们扩大产品范围策略的一部分，集团正努力在今年内推出新产品。

鸣谢

我们要对管理层和全体员工在2021年的努力与尽职表示感激。如果没有他们的奉献和努力，我们今年将无法取得良好的业绩。我们非常感谢我们的客户和供应商，感谢他们坚定不移的支持和信任。我们衷心地向我们的股东致以最诚挚的感谢，你们陪伴我们经历了许多风雨。你们的鼎力支持推动着我们争取更大的成就。最后，我们要感谢董事会成员的指导，献策和咨询。

周亨增
独立非执行主席

吴学丹
总裁兼执行董事

OPERATIONS & FINANCIAL REVIEW

REVENUE

The Group's FY2021 revenue increased by RMB5.7 million or 12.0% from RMB47.1 million in FY2020 to RMB52.8 million in FY2021. Revenue from Group's non-prescribed drugs segment increased by RMB5.1 million and revenue from prescribed drugs segment increased by RMB0.6 million.

Gross profit margin decreased from 50.6% in FY2020 to 47.4% in FY2021 mainly due to rising costs from both segments. Other income increased by RMB1.6 million from RMB0.5 million in FY2020 to RMB2.1 million in FY2021 mainly due to higher government grant in FY2021.

Selling and distribution costs decreased by RMB3.1 million or 17.2% from RMB17.8 million in FY2020 to RMB14.7 million in FY2021 mainly due to lower advertising and selling expenses. Administrative costs decreased by RMB1.2 million or 11.4% from RMB10.4 million in FY2020 to RMB9.2 million in FY2021 mainly due to RMB0.5 million decrease in R&D expenses, RMB0.3 million in entertainment expenses, RMB0.2 million decrease in repairs & maintenance expenses, RMB0.2 million decrease in personnel expenses.

Other costs for FY2021 was nil. Unlike FY2020, there was other costs of RMB1.3 million impairment loss on property, plant and equipment. Finance income decreased from RMB37,000 in FY2020 to RMB30,000 in FY2021, mainly due to lower finance income from cash and cash equivalents. Finance costs increased from RMB0.9 million in FY2020 to RMB1.1 million in FY2021.

NET PROFIT

As a result of the above, the Group recorded a net profit attributable to shareholders of RMB1.2 million for FY2021 compared to a net loss of RMB5.8 million for FY2020.

FINANCIAL POSITION

The Group's non-current assets were RMB55.5 million as at 31 December 2021, an increase of RMB1.2 million from RMB54.3 million as at 31 December 2021. This was mainly due to the increase in property, plant and equipment and right-of-use assets.

The Group's current assets were RMB37.1 million as at 31 December 2021, an increase of RMB0.1 million from RMB37.0 million as at 31 December 2020. This was mainly due to higher inventories, trade receivables and lower prepaid expenses, other receivables, cash and cash equivalents.

The Group's current liabilities were RMB30.8 million as at 31 December 2021, a decrease of RMB1.6 million from RMB32.4 million as at 31 December 2020 mainly due to increase in trade payables, lease liabilities, tax payable and decrease in accrued liabilities & other payables.

The Group's non-current liabilities were RMB1.7 million as at 31 December 2021, an increase of RMB1.0 million from RMB0.7 million as at 31 December 2020 due to increase in lease liabilities.

OPERATIONS & FINANCIAL REVIEW

CASH FLOW

The Group's net cash flow from operating activities for FY2021 was RMB0.7 million, mainly due to cash generated from operations and finance costs paid.

Net cash used in investing activities for FY2021 amounted to RMB1.6 million, incurred mainly for the acquisition of plant and equipment.

Net cash used in financing activities for FY2021 amounted to RMB0.3 million, incurred mainly for the repayment of lease liabilities.

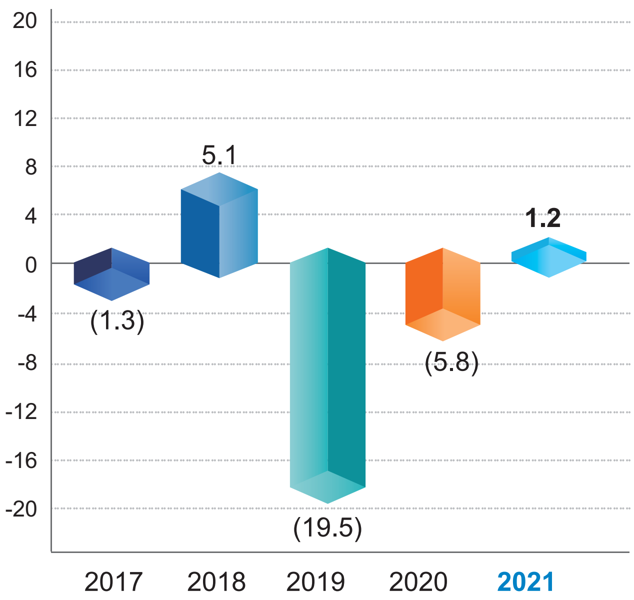
As at 31 December 2021, the Group had cash and cash equivalents of RMB14.0 million.

SHAREHOLDERS' FUNDS

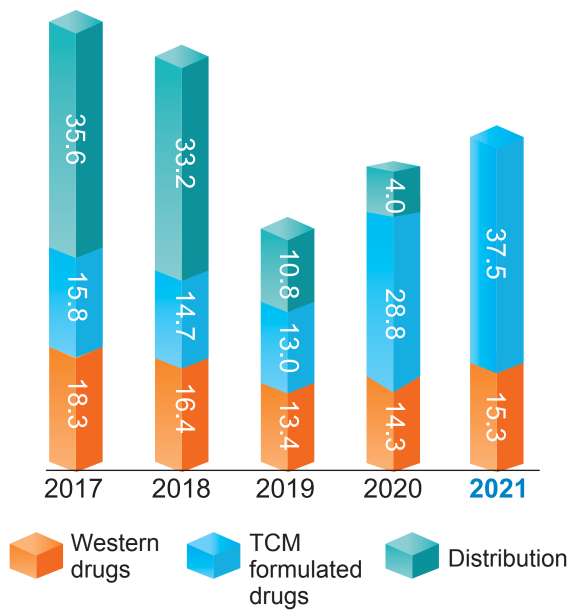
Shareholders' funds amounted to RMB57.5 million as at 31 December 2021. With Group's net profit attributable to equity holders at RMB1.2 million in FY2021, net profit per share was RMB5.1 cents, compared with net loss per share of RMB25.3 cents in FY2020. Net asset value per share as at 31 December 2021 was RMB2.61.

FINANCIAL HIGHLIGHTS

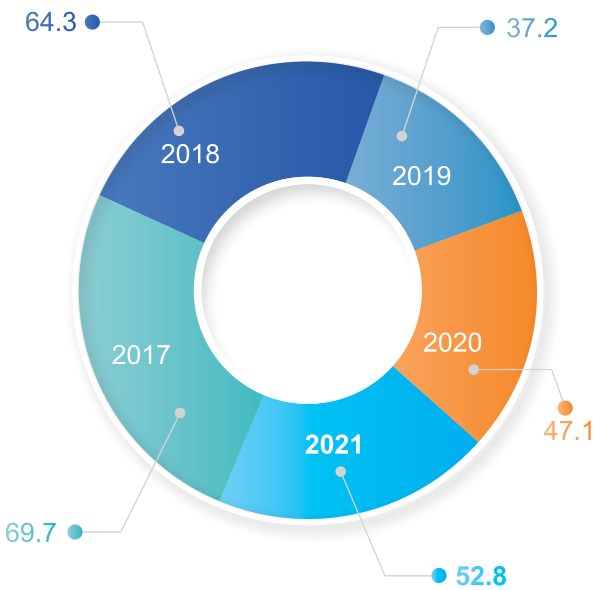
PROFIT/(LOSS) BEFORE TAX
(RMB MILLION)



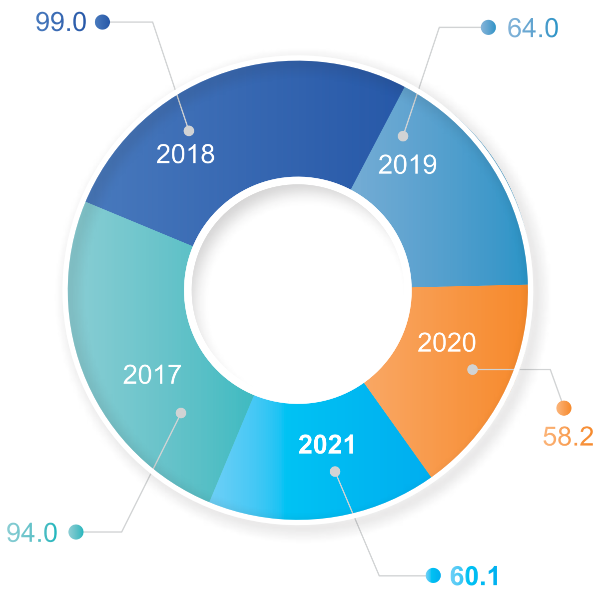
REVENUE BY SECTOR
(RMB MILLION)



TOTAL REVENUE
(RMB MILLION)



TOTAL EQUITY (including non-controlling interest)
(RMB MILLION)



BOARD OF DIRECTORS

MR. WU XUEDAN
吴学丹

MR. QI JIE
祁杰

Chief Executive Officer and Executive Director

Mr. Wu Xuedan has been an Executive Director since 16 April 2004. He was re-appointed as the Chief Executive Officer on 31 December 2017. Previously, he was appointed as the Chief Executive Officer from 5 January 2009 to 1 July 2016. Mr. Wu has many years of experience in the pharmaceutical industry.

Mr. Wu is responsible for the stewardship and guidance of the Group in its developments and future plans. He also oversees the overall management and operations of the Group as well as supervises the research and development activities. Mr. Wu joined Chengdu Kinna in 1996. Prior to that, he was the Production Manager at Chengdu Automobile Maintenance and Repair Factory under the Ministry of Communications (Transport) from 1983 to 1996.

Mr. Wu graduated from Economic Management Correspondence Union University in 1987 specialising in Industrial Enterprise Management. Mr. Wu also holds a Diploma in Mechanical Manufacturing from Wuhan Water Transport Secondary Specialised School.

Chief Operating Officer and Executive Director

Mr. Qi Jie was appointed as Chief Operating Officer and Executive Director of our Company on 31 December 2017. Mr. Qi assists the Chief Executive Officer and oversees the overall operations of the Group.

Mr. Qi joined Chengdu Kinna Pharmaceutical Co. Ltd in 1996. Mr. Qi has many years of experience in the pharmaceutical industry. Mr. Qi graduated from the School of Business Administration specialising in Business Management. He is also a graduate student at Sichuan University in China.

总裁兼执行董事

吴学丹先生在2004年4月16日加入本公司担任执行董事一职。吴先生并于2017年12月31日再次被委任为总裁。吴先生曾在2009年1月5日至2016年7月1日担任总裁。他在生物医药领域上拥有丰富的经验。

吴先生将把握集团发展方向，制定运营策略，全面管理、经营本集团和研究等事项。他在1996年加入国嘉制药，而在之前的1983年至1996年间，他也担任过交通部成都汽车保修机械厂的生产科科长。吴先生在1987年毕业于经济管理刊授联合大学工业企业管理专科。他也同时拥有武汉水运工业学校的机械制造专业文凭。

运营总监兼执行董事

祁杰先生在2017年12月31日受委任为公司的运营总监兼执行董事。祁先生协助总裁并负责监督集团的管理和营运。

祁先生在1996年加入国嘉制药。他在生物医药领域上拥有丰富的经验。祁先生毕业于工商管理学院，企业管理专科。他也是中国四川大学的研究生。

BOARD OF DIRECTORS

MR. CHEW HENG CHING

周亨增

Non-Executive Chairman and Independent Director

Mr. Chew Heng Ching has been an Independent Non-Executive Director since 9 November 2005. He assumes the role of Non-Executive Chairman on 5 January 2009. Mr. Chew has relinquished his position as the Chairman of the Company and he has been appointed as Lead Independent Director of the Company on 15 January 2015. He was re-designated from Lead Independent Director to Non-Executive Chairman and Independent Director on 1 July 2016. Mr. Chew has more than 30 years of senior management experience in both the private and public sectors.

In corporate life, Mr. Chew is the founding President of the Singapore Institute of Directors and was Past Chairman of its Governing Council. He sits on the board of various publicly listed companies in Singapore and chairs their various Board Committees. He was a Member of the Council on Corporate Disclosure and Governance. He was also a Board member and Past Chairman of the Singapore International Chamber of Commerce. He was a Council Member of the Singapore Business Federation. In public life, Mr. Chew was a Member of Parliament from 1984 to 2006 and a former Deputy Speaker of the Singapore Parliament. He served on the Board of various charities previously. A Colombo Plan scholar, Mr. Chew is a graduate in Industrial Engineering (1st Class Honours) and Economics. He also holds an Honorary Doctorate in Engineering. He is a fellow of the Singapore Institute of Directors and CPA Australia.

非执行主席兼独立董事

周亨增先生自2005年11月9日被委任为独立兼非执行董事，并在2009年1月5日受委成为非执行主席。周先生自公司主席的职位卸任后，并于2015年1月15日受委成为首席独立董事。周先生于2016年7月1日将首席独立董事的职位卸任后，再次受委成为非执行主席兼独立董事。他拥有超过30年的高级管理层经验，跨足私人及公共领域。

在企业领域上，周先生是新加坡董事学会的创办人，也是其管理委员会的前主席。他目前是许多本地上市公司的董事，并担任其委员会主席。他曾是企业披露与监管理事会的成员。他是新加坡国际会的前主席，目前依然是该会成员。他也担任过新加坡工商联合总会的理事会成员。

在公共服务方面，周先生从1984年至2006年担任国会议员，也曾担任国会副议长。他曾经在许多慈善机构的董事局里服务。

身为一名科伦坡计划奖学金得主，周先生获得工业工程（一等荣誉）以及经济学位。他也同时拥有工程荣誉博士学位。他目前是新加坡董事学会以及澳大利亚注册会计师学会的成员。

BOARD OF DIRECTORS

MR. CHAY KWOK KEE
谢国基

Independent Non-Executive Director

Mr Chay was appointed as Independent Non-Executive Director of our Company on 27 April 2018.

Mr Chay is currently an Independent Investor cum Business Consultant. He had consulted on various projects, ranging from fast foods, nursing facilities, property and trading, and stationed in many countries including Malaysia, Indonesia, Cambodia, Hong Kong, Taiwan and Canada since 1990. Mr Chay had also assisted a number of listed companies in Singapore for their business development in China, including Noel Gifts, Edition Ltd, Aston International, Ei-Net Ltd etc.

Before that, Mr Chay was the General Manager of an Indonesian owned property investment company for about ten years and was with the Credit & Marketing Department of Overseas Union Bank (OUB) for three years.

Mr. Chay holds a Degree in Accountancy from the National University of Singapore.

独立兼非执行董事

谢国基先生在2018年4月27日受委任为公司的独立兼非执行董事。

谢国基先生目前是独立投资人兼商业顾问。自1990年以来，他曾参与各种项目的咨询，包括快餐，护理设施，房地产和贸易，以及驻扎在马来西亚，印度尼西亚，柬埔寨，香港，台湾和加拿大等许多国家。谢国基先生还协助新加坡的一些上市公司在中国开展业务，包括隆辉礼品国际有限公司，Edition Ltd，Aston International，Ei-Net Ltd等。

在此之前，谢国基先生曾担任一家印尼房地产投资公司的总经理约十年，并在华联银行(OUB)的信贷与营销部工作了三年。

谢国基先生拥有新加坡国立大学的会计学位。

MS. CHUNG CHIA-JUNG
鍾佳容

Non-Independent Non-Executive Director

Ms. Chung Chia-Jung was appointed as Non-Independent Non-Executive Director of our Company on 15 December 2017. Ms. Chung is currently the Vice President of Chigin Metal Enterprise Co Ltd. Ms. Chung graduated from Santa Monica College with a Business Degree in 2010.

非独立兼非执行董事

鍾佳容小姐在2017年12月15日受委任为公司的非独立兼非执行董事。鍾小姐目前担任启金企业有限公司副总。鍾小姐在2010年毕业于圣莫尼卡学院，商业专科。

CORPORATE INFORMATION

BOARD OF DIRECTORS
Wu Xuedan
(Chief Executive Officer and Executive Director)
Qi Jie
(Chief Operating Officer and Executive Director)
Chew Heng Ching
(Independent Non-Executive Chairman)
Chay Kwok Kee
(Independent Non-Executive Director)
Chung Chia-Jung
(Non-Independent Non-Executive Director)

AUDIT COMMITTEE
Chew Heng Ching (Chairman)
Chay Kwok Kee
Chung Chia-Jung

NOMINATING COMMITTEE
Chew Heng Ching (Chairman)
Chay Kwok Kee
Wu Xuedan

REMUNERATION COMMITTEE
Chew Heng Ching (Chairman)
Chay Kwok Kee

COMPANY SECRETARY
Chan Lai Yin

REGISTERED OFFICE
5 Kallang Sector #03-02
Singapore 349279
Tel: (65) 6846 0766
Fax: (65) 6743 7916
Email: enquiry@pharmesis.com

SHARE REGISTRAR
In.Corp Corporate Services Pte. Ltd.
(formerly known as RHT Corporate Advisory Pte. Ltd.)
30 Cecil Street #19-08
Prudential Tower
Singapore 049712

AUDITORS
Ernst & Young LLP
Public Accountants and Chartered Accountants
One Raffles Quay North Tower Level 18
Singapore 048583

Partner-in-charge: Mr. Adrian Koh
(Appointed since financial year ended 31 December 2019)

PRINCIPAL BANKERS
Agricultural Bank of China
Bank of Chengdu
SPD Bank

CORPORATE GOVERNANCE STATEMENT AND FINANCIAL CONTENTS

CORPORATE GOVERNANCE STATEMENT

Pharmesis International Ltd. (the “Company”) and its Management are committed to maintaining a high standard of corporate governance to safeguard the interest of all its stakeholders.

The Singapore Exchange Securities Trading Limited (“SGX-ST”)’s Listing Manual requires an issuer to describe its corporate governance practices with specific reference to the principles and the provisions of the Code of Corporate Governance 2018 (the “Code”) in its annual report, as well as disclose any deviation from any provision of the Code and explain how the practices it had adopted are consistent with the intent of the relevant principle. This report outlines the Company’s corporate governance practices throughout the financial year with specific reference to the Code.

BOARD MATTERS

Board’s Conduct of its Affairs

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

The Board’s primary role is to protect shareholders’ interests and enhance long-term shareholders’ value. It sets the overall strategy for the Company and its subsidiaries (the “Group”) and supervises the management. To fulfil this role, the Board is responsible for setting the strategic direction for the Group, establishing goals for management and monitoring the achievement of these goals.

Apart from its statutory responsibilities, the Board’s principal functions include the following:–

(i) approve annual reports, periodic financial announcements and accounts;

(ii) ensure management leadership of high quality, effectiveness and integrity;

(iii) appoint key personnel;

(iv) review financial performance and implement financial policies which incorporate risk management, internal controls and reporting compliance; and

(v) assume responsibility for corporate governance framework of the Company.

Conflict of Interest

Where Board Meetings are not convened, the Board may use circular resolution in writing to sanction certain decisions. Directors facing conflict of interest will recuse themselves from discussions and decisions involving the issues of conflict.

Matters Requiring Board Approval

The Group has adopted and documented internal guideline setting for the matters that require Board approved. Matters which are specifically reserved for decision of the full Board include:–

(i) approve the Group’s corporate and strategic directions;

(ii) approve annual budgets, investment and divestment proposals;

CORPORATE GOVERNANCE STATEMENT

(iii) material acquisition and disposal of assets;

(iv) capital-related matters including financial re-structure, market fund-raising; share issuance, interim dividend and other returns to shareholder; and

(v) convening of general meetings.

Delegation to Board Committees

To assist in the execution of its responsibilities, the Board is supported by a number of committees which include a Nominating Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

Attendance at Board and Committee Meetings

The Board meets at least four (4) times a year to oversee the business affairs of the Group and approve any financial or business strategies or objectives. Where necessary, additional Board meetings and committee meetings are held to deliberate on urgent substantive matters. Telephonic attendance and conference via audio communication at Board meetings are allowed under the Company's Constitution.

The details of the number of Board and Board Committees meetings held during the financial year and the attendance of each Board member at those meetings are disclosed as follows:

Name	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr. Wu Xuedan	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Qi Jie	4	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mr. Chew Heng Ching	4	4	4	4	1	1	1	1
Mr. Chay Kwok Kee	4	4	4	4	1	1	1	1
Ms. Chung Chia-Jung	4	3	4	3	N.A.	N.A.	N.A.	N.A.

Directors' Orientation and Training

Any newly appointed Directors will be given an orientation to the Group's operational facilities in the People's Republic of China ("PRC") and meet up with senior management to provide background information about the Group's history and business operations. A formal letter of appointment will be furnished to the newly appointed director, upon his appointment during the financial year, explaining among other matters, the roles, obligations, duties and responsibilities as a member of the Board. In addition, the Board is provided with regular updates with respect to new laws, rules, regulations, listing requirement, governance practices and other regulations in order to adapt to the changing commercial risks relating to the business and operations of the Group. If the newly appointed Director has no prior experience as a director of a SGX-ST listed company, they are also required to attend courses and training organised by institutions such as the Singapore Institute of Directors, the Accounting and Corporate Regulatory Authority and the SGX-ST.

CORPORATE GOVERNANCE STATEMENT

Access to information

From time to time, the directors are furnished with detailed information concerning the Group to enable them to be fully aware and understand the decisions and actions of the management of the Group. The Board has unrestricted access to the Group's records and information. As a general rule, Board papers are required to be sent to directors at least four (4) days before Board meeting so that members may better understand the matters before the Board meeting and discussion may be focused on questions that the Board has about the Board papers. The Board papers include sufficient information from the management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board meetings.

The independent directors have separate and independent access to the Group's senior management and Company Secretary at all times. The appointment and removal of the company secretary are subject to the approval of the Board. The Board also takes independent professional advice as and when necessary to enable them to discharge their responsibilities effectively. Subject to the approval of the Chairman, Directors, whether as a group or individually, may seek and obtain independent professional advice to assist them in their duties, at the Company's expense.

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

The Board comprises five (5) Directors: Two (2) Independent Directors, two (2) Executive Directors and one (1) Non-Independent Non-Executive Director. Their collective experience and contributions are valuable to the Group. The Directors as at the date of this report are listed as follows: -

Mr. Wu Xuedan	Chief Executive Officer and Executive Director
Mr. Qi Jie	Chief Operating Officer and Executive Director
Mr. Chew Heng Ching	Independent Non-Executive Chairman
Mr. Chay Kwok Kee	Independent Non-Executive Director
Ms. Chung Chia-Jung	Non-Independent Non-Executive Director

The Independent Directors have confirmed that they do not have any relationship with the Company or its related Companies or its substantial shareholders or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interest of the Company. Meanwhile, Nominating Committee ("NC") will review the independence of each director annually, bearing in mind the circumstances set forth in the Code.

The Chairman of the Board is independent. Provision 2.2 of the Code requiring Independent Directors make up a majority of the Board is not applicable. Non-executive Directors make up a majority of the Board.

The Board constantly examines its size with a view to determining the number for effective decision-making. The Board is of the view that its current size is appropriate, which facilitates effective decision-making.

The Company has adopted a Board diversity policy which sets out its approach to achieving diversity on the Board. The Company recognizes that increasing the diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural

CORPORATE GOVERNANCE STATEMENT

and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the merit and contribution that the selected candidates will bring to the Board while taking into diversity. In recognition of the importance and value of gender diversity in the composition of the Board, the Board has one female director currently, Ms. Chung Chia-Jung has been member of the Board since 15 December 2017.

The Board also conducts an annual review to assess if the existing attributes and core competencies of the Board are complementary and contributes to the efficacy of the Board. This enables the Board to maintain or enhance balance and diversity within the Board.

The directors bring with them a wealth of expertise and experience in areas such as accounting, finance, business or management experience and industry knowledge. The current Board composition enables the management to benefit from a diverse and objective perspective on any issues raised before the Board. Key information of directors is set out on pages 12 to 14 of this Annual Report. No individual or group of individuals dominates the Board's decision-making process.

The Independent and Non-Executive Directors constructively challenge and help to develop the proposals on strategy of the Company. They also review and monitor the performance of the Management. The Independent and Non-Executive Directors meet informally without the presence of Management to discuss the affairs of the Company as and when required.

Independence of Director who have served on the Board beyond Nine (9) Years

With effect from 1 January 2022, a Director will not be independent if he has served for an aggregate of more than nine (9) years and his continued appointment as an Independent Director has not be sought and approved in separate resolutions by (a) all shareholders and (b) shareholders, excluding the Directors and chief executive officer of the issuer, and associates of such Directors and chief executive officer (the "Two-Tier Voting"). Such resolutions approved by a Two-Tier Voting may remain in force for three years from the conclusion of the annual general meeting following the passing of the resolutions or the retirement or resignation of the Director, whichever the earlier.

Mr Chew Heng Ching ("Mr. Chew") was appointed as an Independent Director on 9 November 2005 and has served the Board for more than nine (9) years. Mr. Chew who had served more than 9 years, had sought approval at the Annual General Meeting ("AGM") via the Two-Tier Voting approved at the AGM held in April 2021. Accordingly, Mr. Chew continues his appointment as an Independent Non-Executive Chairman of the Company until the conclusion of the third AGM of the Company to be held in April 2024 or upon his retirement or resignation, whichever the earlier.

The NC and the Board have determined that Mr Chew continues to remain objective and independent-minded in Board deliberations. He is independent in character and judgment and has no relationships or circumstances which are likely, or could appear to affect his objectivity and independent judgment. As Chairman of the Board, he continues to provide stability to the Board and the Group has benefited from his counsel and he has, over time, not only gained valuable insight into the Group, its business, markets, and industry but has brought the breadth and depth of his business experience to the Company. His length of service has not in any way interfered with his exercise of independent judgement nor hindered his ability to act in the best interests of the Company. After due consideration and careful assessment, the NC and the Board are of the view that Mr. Chew is able to continue to discharge his duties independently.

CORPORATE GOVERNANCE STATEMENT

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

The Board subscribes to the principles set out in the Code on the separation of the roles of the Chairman and the Chief Executive Officer ("CEO"). The roles and responsibilities of the Chairman and CEO in the Company are distinct and separate. This is to ensure appropriate balance of power and authority, accountability and decision making.

The Chairman and the CEO are not related to each other. The CEO is responsible for the day-to-day management of the affairs of the Group. He takes a leading role in developing and expanding the businesses of the Group and ensures that the Board is kept updated and informed of the Group's business.

The Chairman's responsibilities include:

(i) scheduling meetings and leading the Board to ensure its effectiveness and approves the agenda of Board meetings in consultation with the CEO;

(ii) reviewing key proposals and Board papers before they are presented to the Board and ensures that Board members are provided with accurate and timely information;

(iii) ensuring that Board members engage Management in constructive debate on various matters including strategic issues and business planning processes; and

(iv) promoting high standards of corporate governance.

Given that the roles of the Chairman and CEO are separate and the Chairman is independent, no Lead Independent Director is required to be appointed.

Board Membership and Board Performance

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The Nominating Committee ("NC") comprises the following directors, the majority of whom including the Chairman is independent. The Chairman is not associated with the substantial shareholders of the Company:

Mr. Chew Heng Ching	Independent Non-Executive Chairman	(Chairman)
Mr. Chay Kwok Kee	Independent Non-Executive Director	(Member)
Mr. Wu Xuedan	CEO and Executive Director	(Member)

The Board has approved the written terms of reference of the NC, whose principal functions include the following:

(i) make recommendations to the Board on all Board appointments taking into account the director's contribution and performance;

CORPORATE GOVERNANCE STATEMENT

(ii) review the Board's structure, size and composition, having regard to the principles of corporate governance and the Code;

(iii) procure at least one-third (1/3) of the Board shall comprise of independent directors (or such other minimum proportion and criteria as may be specified in the Code from time to time);

(iv) identify and nominate candidates for the approval of the Board to fill vacancies in the Board as and when they arise;

(v) formulate succession plan;

(vi) determine, on an annual basis, whether a director is independent based on the circumstances set forth in the Code;

(vii) recommend directors who are retiring by rotation to be put up for re-election;

(viii) decide whether or not a director is able to carry out and has been adequately carrying out his duties as a director of the Company, particularly when he has multiple board representations and other principal commitments;

(ix) assess the effectiveness of the Board as a whole and assess the contribution of each individual director to the effectiveness of the Board on an annual basis;

(x) recommend to the board on the review of training and professional development programs for the Board, and;

(xi) conduct rigorous review the independence of the director who had served on board beyond nine (9) years from the date of his appointment.

Board member's others directorships and principal commitment are disclosed as follows:

Name of Director	Nature of Appointment	Date of Initial Appointment	Date of Last Re-election	Membership of Board Committee	Directorship in other Listed Companies and other Principal Commitment
Mr. Chew Heng Ching	Independent Director	9 November 2005	28 April 2021	Chairman of Nominating Committee, Remuneration Committee and Audit Committee	Present:– i) Bonvests Holdings Limited ii) Ausgroup Limited iii) RHT Worldbridge Holdings Pte Ltd iv) Crocodile Holdings Pte Ltd v) Hong Leong Global Enterprise Ltd Preceding three years:– vi) Sinopipe Holdings Limited vii) Huan Hsin Holdings Ltd viii) Spindex Industries Limited

CORPORATE GOVERNANCE STATEMENT

Name of Director	Nature of Appointment	Date of Initial Appointment	Date of Last Re-election	Membership of Board Committee	Directorship in other Listed Companies and other Principal Commitment
Mr. Wu Xuedan	Executive Director	16 April 2004	28 April 2021	Member of Nominating Committee	Present:– i) Chengdu Kinna Pharmaceutical Co. Ltd ii) Sichuan Longlife Pharmaceutical Co. Ltd iii) Chengdu Pharmesis Pharmaceutical Co. Ltd iv) Jiangyou Lijia Pharmaceutical Co., Ltd
Mr. Qi Jie	Executive Director	31 December 2017	26 June 2020	None	Present:– i) Chengdu Kinna Pharmaceutical Co. Ltd ii) Sichuan Longlife Pharmaceutical Co. Ltd iii) Jiangyou Lijia Pharmaceutical Co., Ltd
Ms. Chung Chia-Jung	Non-Independent Non-Executive Director	15 December 2017	26 June 2020	Member of Audit Committee	–
Mr. Chay Kwok Kee	Independent Director	27 April 2018	26 April 2019	Member of Nominating Committee, Remuneration Committee and Audit Committee	–

Information in respect of the academic and professional qualifications, and other appointments for each Director is disclosed in the “Board of Directors” section of the Annual Report. In addition, information on shareholdings in the Company and its related companies held by each Director is set out in the “Directors’ Statement section of the Annual Report.

Pursuant to the Company’s Constitution, all directors must submit themselves for re-election at the Annual General Meeting (“AGM”) at least once every three years and all newly appointed directors during the year shall retire at the next AGM. Retiring Directors are eligible for re-election.

The NC has recommended to the Board that Mr. Chay Kwok Kee and Ms. Chung Chia-Jung are due for retirement by rotation under Article 91 and be nominated for re-election at the forthcoming AGM. In making its recommendation, the NC evaluates such directors’ contribution and performance, such as their attendance at meetings of the Board and Board Committees, where applicable, candour and any special contributions. As part of the appointment and re-appointment process, the NC will also consider whether

CORPORATE GOVERNANCE STATEMENT

a director with multiple board representations is able to carry out, and has been devoting sufficient time to adequately carry out his duties as a Director of the Company, with regard to the director's number of listed company board representations and other principal commitments.

The Board does not prescribe a maximum limit on the number of listed company board representations a director may hold, as the Board believes that a director can only determine by himself the number of board representations he can manage and the more appropriate measure is the ability of such Director to contribute effectively and demonstrate commitment to his role, including commitment of sufficient time and attention to the Group's business and affairs.

The NC is also responsible for determining annually, the independence of directors. In its annual review, the NC, having considered the provisions set out in the Code, has confirmed the Non-Executive Directors namely, Mr. Chew Heng Ching and Mr. Chay Kwok Kee are independent. The NC have reviewed and is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company, notwithstanding that some of the Directors have multiple board representations.

The NC has an annual Board performance evaluation to assess the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board by having the directors complete a questionnaire. The findings were analysed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board.

The NC, in assessing the contribution of each director, had considered his attendance and participation at Board and Board Committee Meetings, his qualification, experience and expertise and the time and effort dedicated to the Group's business and affairs including management's access to the directors for guidance or exchange of views as and when necessary. In assessing the effectiveness of the Board as a whole, both quantitative and qualitative criteria are considered. Such criteria include return on equity and the achievement of strategic objectives.

The Company does not engage an external facilitator in respect of the Board Performance Evaluation.

The search and nomination process for new directors are through personal contacts and recommendations of the Director. The NC will review and assess candidates before making recommendation to the Board. The NC will also take the lead in identifying, evaluating and selecting suitable candidate for new directorship. In its search and selection process, the NC considers factors such as commitment and the ability of the prospective candidate to contribute to discussions, deliberations and activities of the Board and Board Committees.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES, LEVEL AND MIX OF REMUNERATION AND DISCLOSURE OF REMUNERATION

Principle 6: The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and Key Management Personnel. No Director is involved in deciding his or her own remuneration.

Principle 7: The level and structure of remuneration of the Board and Key Management Personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

CORPORATE GOVERNANCE STATEMENT

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

The RC comprises solely Independent Directors. The members of the RC are:

Mr. Chew Heng Ching	Independent Non-Executive Director	(Chairman)
Mr. Chay Kwok Kee	Independent Non-Executive Director	(Member)

The RC comprises two (2) members, who are the only independent directors of the Board. The Board believes that the current structure and membership of the RC is beneficial to the Company and minimise the risk of any potential conflict of interest.

The role of the RC is to review and recommend to the Board a general framework of remuneration for the Board and key management personnel of the Group, including but not limited to director’s fees, salaries, allowances, bonuses, options, share-based incentives and rewards, and benefit in kind.

The RC may from time to time, and where necessary or required, engage external consultants in framing the remuneration policy and determining the level and mix of remuneration for Directors and Management. Among other things, this helps the Company to stay competitive in its remuneration packages. During the financial year ended 31 December 2021, there is no remuneration consultant being appointed.

The RC, in establishing the framework of remuneration policies for its directors and key executives is largely guided by the financial performance of the Company. The primary objective of the RC is to align the interests of management with that of the shareholders. In this regard, the RC believes that remuneration should be competitive and sufficient to attract, retain and motivate the Executive Directors and key executives to better manage the Company. The performance of Executive Directors (include other key management personnel) is reviewed periodically by the RC and the Board for the entitlement on the long term incentive scheme which is put in place to motivate and reward employees and align their interest to maximize long-term shareholder value.

The Executive Directors do not receive directors’ fees. The remuneration package adopted for the Executive Directors are as per service contract entered into between the Executive Directors and the Company. The remuneration policy for Executive Directors and the key management personnel consists of basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance.

The Board recommends a fixed fee for the effort, time spent and responsibilities for each of the independent and non-executive directors. The Chairman of the Board and the various committees are remunerated with higher directors’ fees, which corresponds with the higher level of responsibility. Directors’ fees are recommended by the Board for approval by the shareholders at the AGM of the Company.

The Company does not use contractual provisions to allow the Company to reclaim incentive component of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

CORPORATE GOVERNANCE STATEMENT

The RC met once during the financial year. The RC reviewed and recommends the remuneration of the Executive Directors and fees payable to the Non-Executive Directors.

All members of RC are abstained from deciding on its own remuneration.

In preparation for the extent of termination of executive directors' and key management personnel's contract of service, the RC reviews such contracts of services and institutes safeguards for fair and reasonable termination clauses which are not overly generous.

A list of each Non-Executive and the Executive Director's remuneration paid during the financial year ended 31 December 2021 is shown below:

Remuneration Band and Name of Director	Base Salary[(a)] %	Variable Payment[(b)] %	Other Benefits[(c)] %	Directors' Fee[(d)] %	Total %
Below S$250,000					
Mr. Wu Xuedan	100	–	–	–	100
Mr. Chew Heng Ching	–	–	–	100	100
Mr. Qi Jie	100	–	–	–	100
Ms. Chung Chia-Jung	–	–	–	100	100
Mr. Chay Kwok Kee	–	–	–	100	100

(a) Base salary includes fixed allowance, contractual bonus and employer's CPF contribution.
(b) Variable Payment includes performance bonus and non-contractual bonus.
(c) Other Benefits refer to benefit-in-kind such as club and car benefits.
(d) The Directors' fees for the financial year ended 31 December 2021 has been approved by the shareholders at the AGM held on 28 April 2021.

Remuneration of Key Management Personnel

The Company has only one key management personnel (who is not a Director or CEO of the Company), namely Mr. Liang Chan Hoe, the Financial Controller. As the Company only has one (1) key management personnel who is not a Director or the CEO, it is not in the best interests of the Company to disclose the aggregate remuneration paid to the key management personnel due to highly competitive human resources environment. His annual remuneration for the financial year under review comprising 100% in salary and is less than S$250,000.

For competitive reason, the Company is not disclosing each individual Director's remuneration. Instead, the Company is disclosing the remuneration of each Director in bands of S$250,000.

There is no employee of the Group who is substantial shareholder of the Company, or an immediate family member of the director, the CEO or a substantial shareholder of the Company and whose remuneration exceeds S$100,000 during the financial year ended 31 December 2021.

The Company does not adopt any Employee Share Scheme.

The RC has reviewed and is satisfied that the performance conditions were met for financial year ended 31 December 2021.

CORPORATE GOVERNANCE STATEMENT

ACCOUNTABILITY & AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 9: The Board is responsible for governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board regularly reviews the effectiveness of all internal controls including operational controls. The role of risk management has been delegated to the Audit Committee ("AC").

Based on the internal control system established and maintained by the Group, work performed by the internal and external auditors and reviews performed by management, the Board with the concurrence of the AC is of the opinion that there are adequate internal controls systems in the Company in addressing financial, operational, compliance and information technology controls and risk management systems as at 31 December 2021.

The Board has received assurance from the CEO and the Financial Controller that the financial records as at 31 December 2021 have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances. The Board has also received assurance from the CEO and Financial Controller that the Group's risk management and internal control systems are adequate and effective.

AUDIT COMMITTEE

Principle 10: The Board has an Audit Committee which discharges its duties objectively.

The AC comprises mainly Independent Directors. The members of the AC are:

Mr. Chew Heng Ching	Independent Non-Executive Chairman	(Chairman)
Mr. Chay Kwok Kee	Independent Non-Executive Director	(Member)
Ms. Chung Chia-Jung	Non-Independent Non-Executive Director	(Member)

The Chairman and members of the AC have many years of experience in business management and finance. The Board is of the view that the members of the AC have sufficient financial management expertise and experience to discharge the AC's functions.

The responsibilities of the AC include reviewing the scope and results of the audit and its cost effectiveness, the independence and objectivity of the external auditors, significant financial reporting issues and judgments to ensure the integrity of the external auditors, significant financial reporting issues and judgments to ensure the integrity of the financial statements, any formal announcements relating to the Group's financial performance, reviewing the assurance from the CEO and the Financial Controller on the financial records and financial statements, the adequacy of the Group's internal controls including financial, operational, compliance and information technology controls and risk management systems, the effectiveness of the Group's internal audit function, and recommending to the Board on the appointment, re-appointment and removal of the external auditors.

CORPORATE GOVERNANCE STATEMENT

Management has arranged in place for a Whistle Blowing policy, by which staff of the Group may, in confidence, raise concerns about the possible improprieties in matters of financial reporting or other matters such as suspected fraud, corruption, unethical practices or matters which may cause financial loss to the Group or damage the Group's reputation. The AC oversees the Group's whistleblowing policy and investigate whistleblowing reports made in good faith. All reasonable steps will be taken to protect the confidentiality and identity of every whistleblower, subject to legal or regulatory requirements. Whistleblowers who act in good faith will not be subject to any detrimental or unfair treatment. Any reprisal suffered shall be received, reviewed and investigated in the same manner as a whistleblowing report. The AC is responsible for the oversight and monitory of whistleblowing. There was no whistle blowing report received during the financial year.

The AC also has explicit authority to investigate any matters within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings and reasonable resources to enable it to discharge its functions properly.

During the financial year, the AC held four (4) meetings and met with internal and external auditors, without the presence of the Company's management, at least once a year to review the overall scope of both internal and external audits, and the assistance given by the management to the auditors. The AC received updates on changes in accounting standards and corporate governance from the external auditors periodically.

During the financial year, the AC has reviewed the scope and quality of audit by the external auditors and the independence and objectivity of the external auditors as well as the cost effectiveness. The AC also reviewed the audit and non-audit fees paid to the external auditors. The total amount paid to the external auditors during the financial year is S$186,000, comprising of S$183,000 audit fee and S$3,000 non-audit fee. The non-audit fee is 2% out of the total audit fee paid to the external auditors. The AC, having reviewed all non-audit services provided by the external auditors of the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors.

The Group does not appoint different auditors for its significant subsidiaries or associated companies.

The Company is in compliance with Rule 712 and Rule 715 of the SGX-ST's Listing Manual in relation to its external auditors.

The AC has recommended and the Board has approved the nomination of Ernst & Young LLP for re-appointment as the external auditors of the Company at the forthcoming AGM.

No former Partner or Director of the Company's existing auditing firm or auditing corporation has acted as a member of the Company's AC: (a) within a period of two years commencing on the date of his/her ceasing to be a Partner of the auditing firm or Director of the auditing corporation; and in any case (b) for as long as he/she has any financial interest auditing firm or auditing corporation.

The Company has outsourced the internal audit function to a professional firm, Sichuan WeiCheng Certified Public Accountants Co., Ltd (四川维诚会计师事务所有限公司) ("WeiCheng CPA"). WeiCheng CPA was established in 2008 with more than 13 years of auditing experience. WeiCheng CPA is also part of the Sichuan WeiCheng Group, which is a comprehensive enterprise mainly engaged in audit, evaluation and consulting services. WeiCheng CPA was rated as Sichuan Province AAA-level accounting firm for six consecutive years. WeiCheng CPA is adequately resourced, with staff strength of over 60 certified public accountants and the engagement team is led by a certified public accountant team leader with more than 12 years of experience. The Internal Auditor reports directly to the Chairman of the Audit Committee ("AC") on internal audit matters and to management on administrative matters. To ensure the adequacy of the internal audit function, the AC reviews and approves, on an annual basis, the internal audit plans and the resources required to adequately performing this function.

CORPORATE GOVERNANCE STATEMENT

The AC has reviewed and satisfied that the Company's internal audit function is adequately resourced and has appropriate standing within the Company. The AC is also satisfied that the internal audit function is staffed by suitably qualified and experienced professionals with the relevant experience. The internal auditor is guided by the "No. 3101 of Chinese Certified Public Accountants Auditing Standards – Assurance Service other than Historical Financial Information Audit or Review", "Enterprise Internal Control Regulations" and related regulations.

The Company cooperates fully with the Internal Auditor in terms of allowing unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

SHAREHOLDER RIGHTS AND ENGAGEMENT

SHAREHOLDER RIGHTS, CONDUCT OF GENERAL MEETINGS AND ENGAGEMENT WITH SHAREHOLDER

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

The Board is mindful of the obligation to provide regular, effective and fair communication with shareholders. Information is communicated to the shareholders on a timely basis. The Board provides shareholders with an assessment of the Company's performance, position and prospects on a quarterly basis and other ad hoc announcements as required by the SGX-ST. The Company's Annual Report is sent to all shareholders and is available to other investors on request and accessible at the Company's website. Due to the COVID-19 restriction orders in Singapore, the Company held the Annual General Meeting 2020 ("AGM 2020") on 28 April 2021 pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Alternative arrangements were arranged such as attendance at the AGM 2020 by way of electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the AGM 2020, addressing of substantial and relevant questions at the AGM 2020 and voting by appointing the Chairman of the Meeting as proxy at the AGM 2020.

In view of the current COVID-19 and restrictions orders in Singapore, the forthcoming AGM to be held on 29 April 2022 will also be held by way of electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Please refer to the Notice of AGM of the Annual Report.

The Board welcomes the views of shareholders on matters affecting the Company, whether at general meetings or on an ad-hoc basis. Shareholders are encouraged to participate effectively in and to vote at the general meetings. Shareholders are informed of general meetings through notices published in the newspapers and reports or circulars sent to all shareholders. Each item of special business included in the notice of the meeting is accompanied by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. The Chairmen of the Audit,

CORPORATE GOVERNANCE STATEMENT

Remuneration and Nominating Committees are normally available at the meeting to answer those questions relating to the work of these committees. The external auditors are also present to assist the directors in addressing any relevant queries by shareholders. The Company communicates with the Shareholders and attends to their questions raised during the AGM. Although the AGM was convened by electronic means, shareholders could submit questions in advance of the AGM and the Company would endeavour to reply prior to the AGM or during the AGM.

The Company does not have an investor policy but consider advice from its corporate lawyers and professionals on appropriate disclosure requirements before announcing material information to shareholders.

Shareholders may also provide any feedback they may have about the Company to the Company's email at enquiry@pharmesis.com.

The Company does not have a specific dividend policy. Nonetheless, the management after reviewing the performance of the Company in the relevant financial year will make appropriate recommendation to the Board. Any dividend declaration will be communicated to shareholders via announcement through SGXNet.

No dividend was declared for the financial year ended 31 December 2021 in view of the accumulated losses.

The Company's Constitution allows a member of the Company to appoint one or two proxies to attend and vote at general meetings. A relevant intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified). The Company will review its Constitution from time to time and make such amendments to the Constitution to be in line with the applicable requirements or rules and regulations governing the Continuing Listing Obligations of the SGX-ST's Listing Manual.

The Company will prepare the detailed shareholders' meeting minutes, which include comments and the questions received from the shareholders and responses from the Board and the Management. These minutes are made available to shareholders on SGXNet as soon as practicable. Minutes of AGM 2020 was released on 28 April 2021 via SGXNET.

The Company communicates with shareholders and the investment community through timely release of announcements to the SGX-ST via SGXNet, including the Company's financial results announcements which are published through the SGXNet on a quarterly basis. Financial results announcements and annual reports are announced or issued within the mandatory period prescribed. The Directors are normally available to solicit and try to understand the views of the shareholders before and/or after general meetings of the Company.

To promote greater transparency and effective participation, the Company has conducted the voting of all its resolutions by poll since its 2015 AGM. The detailed voting results, including the total number of votes cast for or against each resolution tabled, were announced immediately at the AGMs and via SGXNet.

The Article of Association allows Directors, at their sole discretion, approve and implement, subject to such security measures as may be deemed necessary or expedient, such voting methods to allow members who are unable to vote in person at any general meeting the option to vote in absentia, including but not limited to vote by mail, electronic mail or facsimile.

The Board does not implement absentia-voting methods by mail, electronic mail or facsimile, until issues on security and integrity are satisfactorily resolved.

CORPORATE GOVERNANCE STATEMENT

MANAGING STAKEHOLDERS RELATIONSHIPS

ENGAGEMENT WITH STAKEHOLDERS

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to secure the long-term future of the Company. The Company's efforts on sustainability are focused on creating sustainable value for our key stakeholders, which include communities, customers, staff, regulators, shareholders and vendors.

The Company maintains a corporate website at www.pharmesis.com to communicate and engage stakeholders.

SUSTAINABILITY REPORTING

The Sustainability Report will outline the Company's efforts, pursuits and initiatives towards achieving the Group's sustainability goals through operational and business practices. It covers the material Environment, Social and Governance ("ESG") factors relevant to the Group. Our framework of sustainability reporting is in line with the Listing Manual and is guided by the Global Reporting Initiative (GRI) Standards – Core option, the international standard for sustainability reporting ("GRI Standards").

By applying the relevant GRI Standards, we identify and prioritise sustainability topics for reporting. The materiality assessment is conducted through a series of engagement sessions with internal stakeholders and studying existing feedback of external stakeholders. The material topics determined last year were deemed to be relevant and current by the Board and our corporate sustainability committee.

The Company is in the midst of finalising its Sustainability Report for FY2021. It will be made available to the shareholders on the SGXNet and the Company's website by 31 May 2022.

Dealings In Securities

The Company has adopted as its own internal compliance code, the best practices guide in Rule 1207(19) of the SGX-ST's Listing Manual with regard to dealing in the Company's securities by the directors and its officers. The Company, Directors, management and officers of the Group are prohibited from dealing in the Company's shares on short-term considerations and while they are in possession of unpublished price-sensitive, financial or confidential information. They are also prohibited from dealing in the Company's securities during the periods commencing two weeks before the announcement of the Company's results for the first and third quarters of its financial year and one month before the half-year and full-year results and ending on the day of the announcement, or when they are in possession of unpublished price-sensitive information on the Group.

Interested Person Transactions ("IPTs")

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

CORPORATE GOVERNANCE STATEMENT

The Board and AC will review all IPTs to be entered to ensure that the relevant rules under Chapter 9 of the SGX-ST's Listing Manual are complied with.

There was no IPT for disclosure according to Rule 907 of the SGX-ST's Listing Manual in respect of IPTs for the financial year ended 31 December 2021.

MATERIAL CONTRACTS

Saved for the service agreements entered with the CEO and the Executive Director, there were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Director or controlling shareholder at the end of the financial year ended 31 December 2021.

USE OF PROCEEDS

The Company has fully utilised the net proceeds of approximately SGD 1.4 million from the issuance of 3 million new ordinary shares at the issue price of SGD 0.50 per share in 2015 as follows:

	Use of proceeds as at 31 Dec 2021 (SGD million)
Purchase of plant and equipment	0.1
Purchase and replenishment of inventories	0.9
Payments to suppliers & service providers	0.3
Payments for other day-to-day operations	0.1
Total	**1.4**

The above use of proceeds was in line with the Company's planned utilisation announced on 11 November 2019.

DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of Pharmesis International Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2021.

1. Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2021 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date, and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

The directors of the Company in office at the date of this statement are:

Wu Xuedan
Qi Jie
Chew Heng Ching
Chung Chia-Jung
Chay Kwok Kee

In accordance with Articles 91 of the Company's Articles of Association, Chung Chia-Jung and Chay Kwok Kee are retiring by rotation and are being eligible, offer themselves for re-election.

3. Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor or at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' STATEMENT

4. Directors' interests in shares and debentures

The following director, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act 1967, an interest in shares of the Company as stated below:

	Direct interest		Deemed interest	
Name of director	**At beginning of financial year**	**At end of the financial year**	**At beginning of financial year**	**At end of the financial year**
Ordinary shares				
The Company				
Chung Chia-Jung	5,233,800	5,233,800	–	–

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2022.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, shares options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

5. Options

During the financial year, no option to take up unissued shares of the Company was granted.

6. Audit Committee

The members of the audit committee ("AC") at the date of this statement are as follows:

Chew Heng Ching	Chairman and Independent Non-Executive Director
Chay Kwok Kee	Independent Non-Executive Director
Chung Chia-Jung	Non-Independent Non-Executive Director

The AC carried out its functions in accordance with section 201B (5) of the Singapore Companies Act 1967, including the following.

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors

- Reviewed the quarterly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors

- Reviewed effectiveness of the Group and Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor

- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC

DIRECTORS' STATEMENT

- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators

- Reviewed the quality, cost effectiveness and the independence and objectivity of the external auditor

- Reviewed the nature and extent of non-audit services provided by the external auditor

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit

- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate

- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

The AC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened four meetings during the financial year as shown in the Corporate Governance Statement. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Corporate Governance Statement.

7. Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the Board of Directors:

Wu Xuedan
Director

Qi Jie
Director

Singapore
6 April 2022

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pharmesis International Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2021, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of financial position and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Key audit matters (Continued)

Impairment assessment of the Group's non-financial assets and the Company's investment in subsidiaries

As at 31 December 2021, the Group's goodwill on consolidation, property, plant and equipment ("PPE") and right-of-use assets ("ROUA") amounted to RMB1,323,000, RMB44,528,000 and RMB8,591,000 respectively, representing 59% of the Group's total assets. Management has identified indications of impairment on these non-financial assets which are attributed to the following three cash generating units ("CGUs"):

– Sichuan Longlife CGU which consist of ROUA, PPE and Goodwill;

– Kinna Packing Services CGU which consist of PPE; and

– JiangYou CGU which consist of ROUA and PPE.

For the current financial year, the Group did not record any impairment loss on the non-financial assets allocated to the CGUs. Management also performed impairment assessment on the Company's investment in the related subsidiaries carried at RMB54,999,000 as at 31 December 2021 and no impairment loss is recorded for this financial year.

The impairment assessment of the non-financial assets and investment in subsidiaries was significant to our audit due to the magnitude, the significant judgement applied by management, and the heightened degree of estimation uncertainty brought on by the COVID-19 pandemic. As part of our audit, we obtained an understanding of management's impairment assessment process and basis of determining the recoverable amounts of the CGUs, including their considerations of the ongoing impact of COVID-19 pandemic has on the Group's operations.

Management assessed the recoverable amount of Sichuan Longlife, Kinna Packaging Services and JiangYou CGU using the value-in-use (VIU) calculation based on cash flow projection approved by board of directors. The cash flow projection included key assumptions of the CGUs' future revenue, profitability, terminal growth rate and discount rate, which involved management's subjective and complex judgements regarding expectation of future market developments and economic conditions. The impact of the COVID-19 pandemic has further elevated the level of estimation uncertainty relating to these estimates.

In assessing the recoverable amount determined based on VIU calculation, we checked that the cash flows were based on budget approved by the board of directors that reflected the CGUs' business plan. We evaluated management's forecasting process by comparing previous forecast to actual results. We assessed the key assumptions used in the cash flow forecast such as budgeted growth rate, budgeted revenue and gross margin by comparing them to historical data as well as recent trends and market and economic outlooks of the CGUs, taking into consideration the impact of COVID-19 on the industry. Our internal valuation specialist assisted us in assessing the reasonableness of the discount rate and terminal growth rate assumptions used in the VIU computation. We also reviewed management's analysis of the sensitivity of the VIU calculation to a reasonably possible change in the key assumptions.

We reviewed the results of the impairment assessment performed by management and compared the carrying values of the CGUs to their respective recoverable amounts.

We also assessed the adequacy of the disclosures of goodwill, property, plant and equipment and right-of-use assets, and the Company's investment in subsidiaries in Notes 9, 10, 11 and 12 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Key audit matters (Continued)

Impairment assessment of trade receivables

The Group's trade receivable balances amounted to RMB12,803,000 and accounted for approximately 14% of the Group's total assets as at 31 December 2021. At that date, the total allowance for expected credit loss ("ECL") and impairment of trade receivables recognised for the current financial year amounted to RMB258,000.

We considered management's impairment assessment of trade receivables to be a key audit matter as the determination as to whether the debt is collectable and the amount to be recognised for the expected ECL involved significant management's judgements and heighted degree of estimation uncertainty.

The Group estimates ECL of trade receivables using a provision matrix for trade receivables. Management considers various factors such as past due balances, recent historical payment patterns and historical credit loss experience, debtors' financial ability to repay, existence of disputes, economic environment and forecast of future macro-economic conditions where the debtors operate, taking into consideration COVID-19 impact and any other available information concerning the creditworthiness of debtors. Management computed the ECL using a discounted cash flows model based on expectation of the ability and timing of future collections from the debtors.

As part of the audit, we evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. We requested, on a sample basis, trade receivable confirmations, obtained evidence of receipts from the selected trade receivables subsequent to the year end and inquired management on disputed receivables. We evaluated management's assessment of the recoverability of the debts through reviewing debtor aging report to identify collection risk and reviewed historical payment patterns and correspondences with customers on expected settlement dates. We evaluated management's assumptions and inputs used in the computation of historical credit loss rates, and reviewed data and information available for each debtor on a sample basis that management has used to make forward-looking adjustments based on current economic condition. We checked the arithmetic accuracy of management's computation of ECL and impairment recognised. We also assessed the adequacy of the disclosures on the trade receivables and the related risks such as credit risk and liquidity risk in Notes 22(ii) and 22(iii) to the financial statements.

Other information

Management is responsible for other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Auditor's responsibilities for the audit of the financial statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Adrian Koh.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
6 April 2022

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(In Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Revenue	3	**52,772**	47,112
Cost of sales		**(27,769)**	(23,252)
Gross profit		**25,003**	23,860
Other income		**2,082**	727
Selling and distribution costs		**(14,724)**	(17,786)
Administrative costs		**(9,216)**	(10,396)
Other costs	4	**–**	(1,344)
Finance income	5	**30**	37
Finance costs	5	**(1,059)**	(936)
Profit/(loss) before taxation	6	**2,116**	(5,838)
Income tax expense	7	**(149)**	(7)
Profit/(loss) for the year		**1,967**	(5,845)
Profit/(loss) attributable to:			
Equity holders of the Company		**1,170**	(5,827)
Non-controlling interest		**797**	(18)
		1,967	(5,845)
Profit/(loss) per share (cents)			
Basic and diluted	8	**5.1**	(25.3)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(In Renminbi)

	2021 RMB'000	2020 RMB'000
Profit/(loss) for the year	**1,967**	(5,845)
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1,967**	(5,845)
Total comprehensive income attributable to:		
Equity holders of the Company	**1,170**	(5,827)
Non-controlling interest	**797**	(18)
	1,967	(5,845)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(In Renminbi)

	Note	Group 2021 RMB'000	Group 2020 RMB'000	Company 2021 RMB'000	Company 2020 RMB'000
Non-current assets					
Property, plant and equipment	9	**44,528**	44,221	**1**	4
Right-of-use assets	10	**8,591**	7,622	**116**	183
Investments in subsidiaries	11	**–**	–	**54,999**	54,999
Goodwill on consolidation	12	**1,323**	1,323	**–**	–
Advance payment for acquisition of property, plant and equipment		**1,095**	1,095	**–**	–
		55,537	54,261	**55,116**	55,186
Current assets					
Inventories	13	**8,806**	8,533	**–**	–
Trade receivables	14	**12,803**	11,164	**–**	–
Prepaid expenses		**156**	552	**13**	72
Other receivables	15	**1,294**	1,456	**18**	39
Tax recoverable		**106**	106	**–**	–
Cash and cash equivalents	16	**13,976**	15,187	**339**	596
		37,141	36,998	**370**	707
Total assets		**92,678**	91,259	**55,486**	55,893
Current liabilities					
Bank borrowings	17	**15,000**	15,000	**–**	–
Trade payables	18	**4,430**	4,287	**–**	–
Other payables and accrued liabilities	19	**10,749**	12,912	**893**	691
Lease liabilities	10	**392**	206	**67**	67
Income tax payable		**220**	12	**–**	12
		30,791	32,417	**960**	770
Net current assets/(liabilities)		**6,350**	4,581	**(590)**	(63)
Non-current liabilities					
Lease liabilities	10	**1,745**	667	**51**	117
Total liabilities		**32,536**	33,084	**1,011**	887
Net assets		**60,142**	58,175	**54,475**	55,006
Equity attributable to equity holders of the Company					
Share capital	20	**83,714**	83,714	**83,714**	83,714
Reserves		**(26,251)**	(27,421)	**(29,239)**	(28,708)
		57,463	56,293	**54,475**	55,006
Non-controlling interest		**2,679**	1,882	**–**	–
Total equity		**60,142**	58,175	**54,475**	55,006

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(In Renminbi)

	Attributable to equity holders of the Company						
	Share capital RMB'000	Premium paid on acquisition of non-controlling interest RMB'000	Statutory reserve@ RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Group							
Balances as at 1 January 2020	83,714	(10,471)	11,602	(22,725)	62,120	1,900	64,020
Loss for the year, representing total comprehensive income for the year	–	–	–	(5,827)	(5,827)	(18)	(5,845)
Balances as at 31 December 2020	83,714	(10,471)	11,602	(28,552)	56,293	1,882	58,175
Profit for the year, representing total comprehensive income for the year	–	–	–	1,170	1,170	797	1,967
Transfer to statutory reserve	–	–	377	(377)	–	–	–
Balances as at 31 December 2021	**83,714**	**(10,471)**	**11,979**	**(27,759)**	**57,463**	**2,679**	**60,142**

@ In accordance with Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China ("PRC"), the subsidiaries are required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the profit after taxation as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital of RMB86,816,480 (2020: RMB86,816,480). Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(In Renminbi)

	Share capital RMB'000	Accumulated losses RMB'000	Total RMB'000
Company			
Balances as at 1 January 2020	83,714	(28,473)	55,241
Loss for the year, representing total comprehensive income for the year	–	(235)	(235)
Balances as at 31 December 2020	83,714	(28,708)	55,006
Loss for the year, representing total comprehensive income for the year	–	(531)	(531)
Balances as at 31 December 2021	**83,714**	**(29,239)**	**(54,475)**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(In Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Profit/(loss) before taxation		**2,116**	(5,838)
Adjustments for:			
Depreciation of right-of-use assets	10	**577**	498
Allowance for/(write-back of) financial assets – trade and other receivables	14,15	**5**	(112)
Depreciation of property, plant and equipment	9	**1,268**	1,323
Impairment loss on property, plant and equipment	4,9	**–**	1,344
Reversal of impairment loss on right-of-use assets	6,10	**–**	(205)
Write-back of inventories obsolescence	6,13	**–**	(124)
Loss on disposal of property, plant and equipment		**7**	–
Interest income		**(30)**	(37)
Interest expense		**1,059**	936
Operating profit/(loss) before working capital changes		**5,002**	(2,215)
Changes in working capital:			
(Increase)/decrease in trade receivables		**(1644)**	2,505
Increase in inventories		**(273)**	(1,534)
Decrease in prepaid expenses and other receivables		**558**	540
Increase in trade payables		**143**	2,634
(Decrease)/increase in other payables and accrued liabilities		**(2,163)**	732
Cash flows from operations		**1,623**	2,662
Interest received		**30**	37
Interest paid		**(1,059)**	(936)
Income tax refunded/(paid)		**59**	(72)
Net cash flows from operating activities		**653**	1,691
Cash flows from investing activity			
Acquisition of property, plant and equipment	9	**(1,582)**	(918)
Net cash flows used in investing activity		**(1,582)**	(918)
Cash flows from financing activities			
Proceeds from bank borrowings		**15,000**	15,000
Repayment of bank borrowings		**(15,000)**	(15,000)
Repayment of principal portion of lease liabilities		**(282)**	(274)
Net cash flows used in financing activities		**(282)**	(274)
Net (decrease)/increase in cash and cash equivalents		**(1,211)**	499
Cash and cash equivalents at the beginning of the year	16	**15,187**	14,688
Cash and cash equivalents at the end of the year	16	**13,976**	15,187

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

1. General

Pharmesis International Ltd. (the "Company") is a limited liability company incorporated in Singapore and is listed on the Singapore Exchange. The registered office and principal place of business of the Company is located at 5 Kallang Sector #03-02, Singapore 349279.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 11 of the financial statements. There have been no significant changes in the nature of these activities during the year.

The Group operates principally in the People's Republic of China ("PRC").

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and the statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi ("RMB") and all values in the tables are rounded to the nearest thousands (RMB'000) unless otherwise indicated.

2.2 New accounting standards effective on 1 January 2021

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and interpretations which are effective for annual financial periods beginning on or after 1 January 2021. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS(I) 1-16 Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to SFRS(I)s 2018-2020	1 January 2022
Amendments to SFRS(I) 1-1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to SFRS(I) 1-1 Presentation of Financial Statements and FRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023
Amendments to SFRS(I) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	1 January 2023
Amendments to SFRS(I) 1-12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to SFRS(I) 10 Consolidated Financial Statements and SFRS(I) 1-28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the year of initial application.

2.4 Subsidiaries and principles of consolidation

(a) *Subsidiaries*

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

(b) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.4 Subsidiaries and principles of consolidation (Continued)

(b) *Basis of consolidation (Continued)*

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in income statement;
- Re-classifies the Group's share of components previously recognised in other comprehensive income to income statement or retained earnings, as appropriate.

(c) *Business combinations and goodwill*

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in the income statement.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another SFRS(I).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.4 Subsidiaries and principles of consolidation (Continued)

(c) *Business combinations and goodwill (Continued)*

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.8. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in the income statement on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

(d) *Transactions with non-controlling interest*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to equity holders of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity holders of the Company.

2.5 Functional and foreign currency

Functional currency

The management has determined the currency of the primary economic environment in which the Company and the subsidiaries operates i.e. functional currency, to be RMB. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in the functional currency of the Company and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.5 Functional and foreign currency (Continued)

Foreign currency transactions

Transactions in foreign currencies are measured in the functional currency of the Company and its subsidiaries and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the income statement.

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	8 – 40 years
Leasehold improvement	3 – 5 years
Plant and machinery	5 – 10 years
Motor vehicles	4 – 10 years
Other equipment	5 – 10 years

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.7 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities representing future lease payments and right-of-use assets representing the right to use the underlying assets.

(i) ***Right-of-use assets***

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Lease properties	–	Over the lease term period of 3 to 50 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.9.

(ii) ***Lease liabilities***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.7 Leases (Continued)

Group as a lessee (Continued)

(ii) ***Lease liabilities (Continued)***

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) ***Short-term leases and leases of low-value assets***

The Group applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2.8 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Goodwill

Goodwill was acquired in business combinations. The useful life of goodwill is estimated to be indefinite because management believes there is no foreseeable limit to the period over which goodwill is expected to generate net cash inflow for the Group.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the income statement.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the income statement.

2.10 Financial instruments

(a) ***Financial assets***

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.10 Financial instruments (Continued)

(a) ***Financial assets (Continued)***

Initial recognition and measurement (Continued)

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investment in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset.

Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, and through amortisation process.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in the income statement.

(b) ***Financial liabilities***

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.10 Financial instruments (Continued)

(b) ***Financial liabilities (Continued)***

Initial recognition and measurement (Continued)

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.12 Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months ("a 12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default ("a lifetime ECL").

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which could be affect debtors' ability to pay.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

– Raw materials: purchase costs on a weighted average basis;

– Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.15 Research and development costs

All research costs are charged to the income statement as incurred.

Development costs incurred on projects to develop new products are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed as incurred.

2.16 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

2.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.17 Provisions (Continued)

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.18 Employee benefits

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

(i) *Defined contribution plans*

PRC

The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Singapore

The Company makes contribution to the Central Provident Fund ("CPF") Scheme in Singapore, a defined contribution pension scheme.

Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

(ii) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognised for services rendered by employees up to the end of the reporting period.

(iii) *Pharmesis Share Option Scheme*

Directors and employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled share based payment transactions with directors and employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in the income statement, with a corresponding increase in the employee share options reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.18 Employee benefits (Continued)

(iii) *Pharmesis Share Option Scheme (Continued)*

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share options reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share options reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

2.19 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) *Sale of goods*

Revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied.

(b) *Rendering of services*

Revenue from the packaging of oral liquid products is recognised by the number of completed packaged products, upon the performance of services to customers.

2.20 Taxes

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in the income statement except to the extent that the tax relates to items recognised outside the income statement, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.20 Taxes (Continued)

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

– Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

– Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.20 Taxes (Continued)

(c) *Value added tax ("VAT") and Goods and Services Tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

2.21 Segment reporting

For management purposes, the Group is organised into operating segments based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 25, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.22 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.23 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.24 Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of the revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgements made in applying accounting policies

Management is of the opinion that there is no significant judgement made in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist.

An impairment exists when the carrying value of non-financial assets exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of non-financial assets, are detailed in Notes 9 to the financial statements.

The carrying amount of the Group's goodwill on consolidation, property, plant and equipment and right-of-use assets are RMB1,323,000 (2020: RMB1,323,000), RMB44,528,000 (2020: RMB44,221,000) and RMB8,591,000 (2020: RMB7,622,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. Summary of significant accounting policies (Continued)

2.24 Significant accounting judgements and estimates (Continued)

Key sources of estimation uncertainty (Continued)

(b) Impairment assessment of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 14.

The carrying amount of trade receivables as at 31 December 2021 is RMB12,803,000 (2020: RMB11,164,000) respectively.

(c) Income taxes

The Group has exposure to income taxes in two jurisdictions, Singapore and the People's Republic of China. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The carrying amount of the Group's tax recoverable and income tax payable are RMB106,000 (2020: RMB106,000) and RMB220,000 (2020: RMB12,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

3. Revenue

Disaggregation of revenue

	Western drugs		TCM formulated drugs		Distribution		Group	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Major products								
Western Medicine	**15,260**	14,278	**–**	–	**–**	406	**15,260**	14,684
Traditional Chinese Medicine	**–**	–	**37,512**	28,847	**–**	3,581	**37,512**	32,428
	15,260	14,278	**37,512**	28,847	**–**	3,987	**52,772**	47,112
Timing of transfer of goods or services								
At a point in time	**15,260**	14,278	**37,512**	28,847	**–**	3,987	**52,772**	47,112
Primary geographical market								
People's Republic of China	**15,260**	14,278	**37,512**	28,847	**–**	3,987	**52,772**	47,112

4. Other costs

	Group	
	2021 RMB'000	2020 RMB'000
Impairment loss on property, plant and equipment	**–**	1,344

5. Finance income/Finance costs

	Group	
	2021 RMB'000	2020 RMB'000
(i) Finance income		
– Interest income	**30**	37
(ii) Finance costs		
– Interest expense on bank borrowings	**(901)**	(861)
– Interest expenses on lease liabilities	**(137)**	(57)
– Bank charges	**(21)**	(18)
	(1,059)	(936)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

6. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging/(crediting) the following:

	Group	
	2021	**2020**
	RMB'000	**RMB'000**
Depreciation of right-of-use assets	**577**	498
Depreciation of property, plant and equipment	**1,268**	1,323
Loss on disposal of property, plant and equipment	**7**	–
Reversal of impairment loss on right-of-use assets	**–**	(205)
Audit fees paid to auditors of the Company	**360**	375
Audit fees paid to affiliates of auditors of the Company	**520**	520
Non-audit fees paid to auditors of the Company	**15**	17
Personnel expenses*	**23,479**	22,766
Allowance for/(write-back of) financial assets – trade and other receivables	**5**	(112)
Foreign exchange (gain)/loss	**(14)**	7
Government grants	**(1,722)**	(718)
Legal and professional fees	**8**	11
Research and development expenses	**178**	679
Write-back of inventories obsolescence	**–**	(124)
Expenses relating to short-term leases	**12**	12

* Personnel expenses include amounts shown as directors' remunerations and remuneration of key management personnel in Note 21:

	Group	
	2021	**2020**
	RMB'000	**RMB'000**
Wages, salaries and bonuses	**20,498**	21,697
Pension contributions	**2,506**	597
Others	**475**	472
	23,479	22,766

Included in personnel expenses are directors' remuneration and directors' fees of RMB983,000 and RMB663,000 respectively (2020: RMB994,000 and RMB690,000 respectively).

Included in government grants relating to the Jobs Support Scheme (JSS) amounting to RMB56,000 (2020: RMB160,000) has been recorded as other income for the financial year ended 31 December.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

7. Income tax expense

	Group	
	2021	**2020**
	RMB'000	**RMB'000**
Income tax:		
Current year	**149**	5
Under provision in prior years	**–**	2
	149	7
Deferred tax:		
Current	**–**	–
	149	7

The reconciliation between income tax expense and the product of accounting profit/(loss) multiplied by the applicable tax rate for the year ended 31 December was as follows:

	Group	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) before taxation	**2,116**	(5,838)
Tax at domestic rates applicable to loss in the countries where the Group operates	**404**	(1,257)
Adjustments:		
Non-deductible expenses	**435**	915
Income not subject to tax	**(261)**	(27)
Utilisation of previously unrecognised tax benefit	**(399)**	–
Benefit from previously unrecognised tax losses	**–**	384
Effect of partial tax exemption and tax relief	**(18)**	(10)
Under provision in prior years – income tax	**–**	2
Others	**(12)**	–
	149	7

The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

On 27 July 2011, Caishui [2011] 58 on *Tax Policy Issues Concerning Deeply Implementation of the Western China Development Strategy* ("Circular 58") was issued. Circular 58 provides a reduced corporate income tax rate of 15% on 70% of total annual profits to enterprises established in the western regions in China which are engaged in encouraged industries, as stipulated in the Catalogue of Industries Encouraged to Develop in the Western Region. The incentive period lasts from 1 January 2011 to 31 December 2021.

On 20 August 2014, National Development and Reform Commission issued Announcement No. 15 *Catalogue of Industries Encouraged to Develop in the Western Region* ("Announcement 15") to allow enterprises whose activities qualified under the list of approved industries to enjoy the reduced tax rate of 15% subject to approval from the tax authorities. Announcement 15 is effective from 1 October 2014. Chengdu Kinna Pharmaceutical Co., Ltd. does not qualify for the reduced corporate income tax rate of 15% granted under Announcement 15 as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

7. Income tax expense (Continued)

At the balance sheet date, the subsidiaries in PRC have tax losses and temporary differences of RMB11,403,000 and RMB7,455,000 (2020: RMB11,878,000 and RMB8,617,000) that are available for offset against future taxable profit for the respective entities where the tax losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authority. The tax losses of the PRC subsidiaries can only be utilised within the five-year period commencing from the year in which the loss is incurred.

8. Profit/(loss) per share

Profit/(loss) per share amounts are calculated by dividing loss for the year, net of tax, attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted profit/(loss) per share are calculated by dividing loss for the year, net of tax, attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following tables reflect the loss and share data used in the computation of basic and diluted profit/(loss) per share for the years ended 31 December:

	Group	
	2021 RMB'000	**2020 RMB'000**
Profit/(loss) for the year attributable to equity holders of the Company used in computation of basic and diluted profit/(loss) per share	**1,170**	(5,827)
	No. of shares '000	**No. of shares '000**
Weighted average number of ordinary shares for basic and diluted loss per share computation	**23,000**	23,000

	Group	
	2021 RMB Cents	**2020 RMB Cents**
Profit/(loss) per share – basic and diluted	**5.1**	(25.3)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

9. Property, plant and equipment

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Group							
Cost:							
Balance as at 1 January 2020	34,887	2,968	22,448	3,669	1,721	33,948	99,641
Additions	333	–	12	–	16	557	918
Balance as at 31 December 2020 and 1 January 2021	**35,220**	**2,968**	**22,460**	**3,669**	**1,737**	**34,505**	**100,559**
Additions	**–**	**–**	**632**	**–**	**52**	**898**	**1,582**
Disposals	**–**	**–**	**(932)**	**(370)**	**(168)**	**–**	**(1,470)**
Balance as at 31 December 2021	**35,220**	**2,968**	**22,160**	**3,299**	**1,621**	**35,403**	**100,671**
Accumulated depreciation and impairment loss:							
Balance as at 1 January 2020	20,340	2,968	20,001	2,653	1,636	6,073	53,671
Charge for the year	609	–	478	210	26	–	1,323
Impairment loss	507	–	–	–	–	837	1,344
Balance as at 31 December 2020 and 1 January 2021	**21,456**	**2,968**	**20,479**	**2,863**	**1,662**	**6,910**	**56,338**
Charge for the year	**601**	**–**	**467**	**174**	**26**	**–**	**1,268**
Disposals	**–**	**–**	**(922)**	**(369)**	**(172)**	**–**	**(1,463)**
Balance as at 31 December 2021	**22,057**	**2,968**	**20,024**	**2,668**	**1,516**	**6,910**	**56,143**
Net carrying amount:							
Balance as at 31 December 2021	**13,163**	**–**	**2,136**	**631**	**105**	**28,493**	**44,528**
Balance as at 31 December 2020	13,764	–	1,981	806	75	27,595	44,221

At 31 December 2021, buildings of the Group with carrying amounts of RMB3,284,000 (2020: RMB3,485,000) are pledged as security to secure bank borrowings (Note 17).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

9. Property, plant and equipment (Continued)

	Other equipment RMB'000
Company	
Cost:	
Balance as at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	**253**
Accumulated depreciation:	
Balance as at 1 January 2020, 31 December 2020 and 1 January 2021	**249**
Charge for the year	**3**
Balance as at 31 December 2021	**252**
Net carrying amount:	
Balance as at 31 December 2021	**1**
Balance as at 31 December 2020	4

Impairment testing on property, plant and equipment

Management has identified indications of impairment on property, plant and equipment due to the unfavourable market condition in the pharmaceutical industry which was attributed to the two cash generating units ("CGUs") namely Kinna Packaging Services CGU and JiangYou CGU.

As part of the impairment assessment, the carrying amounts of the property, plant and equipment are compared to the recoverable amounts. These assets are reviewed, either on a stand-alone basis or as part of a wider CGU for impairment using the higher of the value-in-use or fair value less disposal cost model.

Kinna Packing Services CGU

Management assessed the recoverable amount of the property, plant and equipment allocated to this CGU using value-in-use calculation based on 5 year cash flow projection approved by board of directors.

The post-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolate cash flow projections beyond the 5-year period are as follows:

	31.12.2021
Growth rates	**0%**
Post-tax discount rates	**14%**

The calculations of value-in-use for the CGU are most sensitive to the following assumptions:

Budgeted revenue and gross margins – The budgeted revenue and gross margins are based on past performances and its expectations of market developments.

Budgeted growth rate – Management determined the budgeted growth rate based on experience and its expectations of market developments. The budgeted growth rate used by the Group does not exceed the long-term average growth rate for the industries relevant to the CGU.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

9. Property, plant and equipment (Continued)

Impairment testing on property, plant and equipment (Continued)

Kinna Packing Services CGU (Continued)

Residual values of property, plant and equipment – Management determined and assessed the reasonableness of the residual values based on indicative market price as of year-end.

Discount rate – The discount rate used represent the current market assessment of the risk specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its Weighted Average Cost of Capital ("WACC"). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumption – Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying amounts of Kinna Packing Services to materially exceed its recoverable amounts.

Based on the assessment, the recoverable amounts of property, plant and equipment allocated to this CGU was computed to be higher than carrying amounts. No impairment loss was recorded during the year.

JiangYou CGU

Management assessed the recoverable amount of the property, plant and equipment allocated to this CGU using value-in-use calculation based on 5 year cash flow projection approved by board of directors.

The post-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolate cash flow projections beyond the 5-year period are as follows:

	31.12.2021
Production capacity	
– 2022	**0%**
– 2023	**40%**
– 2024	**55%**
– 2025	**70%**
– 2026	**100%**
Post-tax discount rates	**14%**

The calculations of value-in-use for the CGU are most sensitive to the following assumptions:

Budgeted revenue and gross margins – The budgeted revenue and gross margins are based on past performances and its expectations of market developments.

Budgeted growth rate – Management determined the budgeted growth rate based on experience and its expectations of market developments. The budgeted growth rate used by the Group does not exceed the long-term average growth rate for the industries relevant to the CGU.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

9. Property, plant and equipment (Continued)

Impairment testing on property, plant and equipment (Continued)

JiangYou CGU (Continued)

Residual values of property, plant and equipment – Management determined and assessed the reasonableness of the residual values based on indicative market price as of year-end.

Discount rate – The discount rate used represent the current market assessment of the risk specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its Weighted Average Cost of Capital ("WACC"). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumption – Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying amounts of JiangYou CGU to materially exceed its recoverable amounts.

Based on the assessment, the recoverable amounts of property, plant and equipment allocated to this CGU was computed to be higher than carrying amounts. No impairment loss was recorded during the year.

In the financial year 2020, management assessed the recoverable amounts of the property, plant and equipment allocated to three CGUs, namely Sichuan Longlife, Chengdu Kinna Western Drugs and JiangYou CGU using fair value less cost of disposal approach. The Group engaged Sichuan Tian Jian Hua Heng Assets Appraisal Co., Ltd, an independent Chinese professional valuer to determine the fair value of the property, plant and equipment.

The valuation techniques and key assumptions were summarised below:

Description	Fair value hierarchy	Valuation technique	Key assumptions
Property, plant and equipment	Level 3	• Market comparison • Depreciated Replacement cost	Include consideration of: • Transacted prices for market comparable assets adjusted for location, land area, and conditions of the land and buildings; • Market value; • Economic or external obsolescence; • Functional or technical obsolescence; and • Physical deterioration

Based on the assessment, an impairment loss of RMB1,344,000 has been recognised in "Other costs" (Note 4) line item of the consolidated income statement for the financial year ended 31 December 2020. No impairment loss was recorded during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

10. Leases

Group as a lessee

The Group has lease contracts for leasehold properties used in its operations. These lease contracts generally have lease terms between 10 to 50 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Leasehold properties RMB'000
Cost:	
Balance as at 1 January 2020	8,832
Additions	199
Balance as at 31 December 2020 and 1 January 2021	**9,031**
Additions	**1,546**
Balance as at 31 December 2021	**10,577**
Accumulated depreciation and impairment loss:	
Balance as at 1 January 2020	1,116
Charge for the year	498
Reversal of impairment loss	(205)
Balance as at 31 December 2020 and 1 January 2021	**1,409**
Charge for the year	**577**
Reversal of impairment loss	**–**
Balance as at 31 December 2021	**1,986**
Net carrying amount:	
Balance as at 31 December 2021	**8,591**
Balance as at 31 December 2020	7,622

Included in the leasehold properties, there are land use rights over three plots of state-owned land in the People's Republic of China ("PRC") where the Group's PRC manufacturing and storage facilities reside respectively. The land use rights are not transferable and have remaining tenures of 21.7, 28.5 and 39.5 years respectively (2020: 22.7, 29.5 and 40.5 years respectively).

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	2021 RMB'000	2020 RMB'000
Balance as at 1 January	**873**	948
Additions	**1,546**	199
Accretion of interests	**137**	57
Payments	**(419)**	(331)
Balance as at 31 December	**2,137**	873
Current	**392**	206
Non-current	**1,745**	667
	2,137	873

The maturity analysis of lease liabilities is disclosed in Note 22(iii).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

10. Leases (Continued)

Group as a lessee (Continued)

The following are the amounts recognised in the statement of comprehensive income:

	2021 RMB'000	2020 RMB'000
Depreciation of right-of-use assets	**577**	498
Interest expense on lease liabilities	**137**	57
Expenses relating to short-term leases	**12**	12
Reversal of impairment loss on right-of-use assets	**–**	(205)
	726	362

The Group had total cash outflows for leases of RMB419,000 (2020: RMB331,000).

As at 31 December 2021, right-of-use assets of the Group with carrying amounts of RMB1,735,000 (2020: RMB1,815,000) are pledged as security to secure bank borrowings (Note 17).

Company as a lessee

The Company has lease contract for leasehold property used in its operations. This lease contract generally has lease terms of 3 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Leasehold property RMB'000
Cost:	
Balance as at 1 January 2020	128
Additions	199
Balance as at 31 December 2020, 1 January 2021 and 31 December 2021	**327**
Accumulated depreciation and impairment loss:	
Balance as at 1 January 2020	73
Charge for the year	71
Balance as at 31 December 2020 and 1 January 2021	**144**
Charge for the year	**67**
Balance as at 31 December 2021	**211**
Net carrying amount:	
Balance as at 31 December 2021	**116**
Balance as at 31 December 2020	183

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

10. Leases (Continued)

Company as a lessee (Continued)

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	2021 RMB'000	2020 RMB'000
Balance as at 1 January	**184**	56
Additions	**–**	199
Accretion of interests	**4**	2
Payments	**(70)**	(73)
Balance as at 31 December	**118**	184
Current	**67**	67
Non-current	**51**	117
	118	184

The maturity analysis of lease liabilities is disclosed in Note 22(iii).

The following are the amounts recognised in the statement of comprehensive income:

	2021 RMB'000	2020 RMB'000
Depreciation of right-of-use assets	**66**	71
Interest expense on lease liabilities	**2**	2
Expenses relating to short-term leases	**2**	2
	70	75

The Company had total cash outflows for leases of RMB70,000 (2020: RMB73,000).

Impairment testing on right-of-use assets

Management has identified indications of impairment on right-of-use assets due to the unfavourable market condition in the pharmaceutical industry which was attributed to the JiangYou CGU.

Management assessed the recoverable amount of CGU based on its higher of the value-in-use and fair value less cost of disposal model. No impairment loss was recorded during the year as the recoverable amounts were computed to be higher than carrying amounts.

Further details of the key assumptions applied in the impairment assessment, are detailed in Note 9 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

11. Investments in subsidiaries

	Company 2021 RMB'000	Company 2020 RMB'000
Unquoted equity shares, at cost	**50,016**	50,016
Investment via issuance of share options to employees of subsidiaries	**4,983**	4,983
	54,999	54,999

(a) ***Composition of the Group***

	Name (Country of incorporation and place of business)	Principal activities	Proportion (%) of ownership interest 2021 %	Proportion (%) of ownership interest 2020 %
	Held by the Company			
+	Chengdu Kinna Pharmaceutical Co., Ltd (成都国嘉联合制药有限公司) (PRC)	Development, manufacture, packaging and sale of western medicines and health tonic products	**100**	100
	Held through Chengdu Kinna Pharmaceutical Co., Ltd:			
+	Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司) (PRC)	Development, manufacture and sale of Traditional Chinese Medicines ("TCM")	**81**	81
+	Chengdu Pharmesis Pharmaceutical Co., Ltd (成都中嘉医药有限公司) (PRC)	Wholesale of chemical drugs, biological raw products, TCM, antibiotics and antibiotics agent	**100**	100
+	Jiangyou Lijia Pharmaceutical Co., Ltd (江油力嘉制药有限公司) (PRC)	Development, manufacture and sale of Traditional Chinese Medicines ("TCM")	**100**	100

\+ Audited by Ernst & Young Hua Ming, Chengdu Branch, for consolidation purpose.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

11. Investments in subsidiaries (Continued)

(b) ***Interest in subsidiary with material non-controlling interest ("NCI")***

The Group has the following subsidiary that have NCI that are material to the Group.

Name of Subsidiary	Principal place of business	Proportion of ownership interest held by non-controlling interest %	Profit/(loss) allocated to NCI during the reporting period RMB'000	Accumulated NCI at the end of reporting period RMB'000
31 December 2021:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	**19**	**797**	**2,679**
31 December 2020:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	19	(18)	1,882

There are no significant restrictions on the Group's ability to use or access assets and settle liabilities of subsidiaries with material non-controlling interests.

(c) ***Summarised financial information about subsidiary with material NCI***

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of a subsidiary with material non-controlling interests are as follows:

Summarised financial position

	Sichuan Longlife Pharmaceutical Co., Ltd 2021 RMB'000	2020 RMB'000
Current		
Assets	**32,817**	29,651
Liabilities	**(22,419)**	(23,533)
Net current assets	**10,398**	6,118
Non-current		
Assets	**8,677**	8,763
Net non-current assets	**8,677**	8,763
Net assets	**19,075**	14,881

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

11. Investments in subsidiaries (Continued)

(c) ***Summarised financial information about subsidiary with material NCI (Continued)***

Summarised statement of comprehensive income

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2021	**2020**
	RMB'000	**RMB'000**
Revenue	**37,615**	33,027
Profit/(loss) before taxation	**4,477**	(92)
Income tax expense	**(148)**	–
Profit/(loss) for the year, representing the total comprehensive income for the year	**4,329**	(92)

Other summarised information

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2021	**2020**
	RMB'000	**RMB'000**
Net cash flows from operating activities	**3,654**	3,965
Net cash flows used in investing activities	**(2,023)**	(14)
Net cash flows from financing activities (Dividends to NCI: nil)	**(901)**	1,514
Net increase in cash and cash equivalents	**730**	5,465

12. Goodwill on consolidation

	Group	
	2021	**2020**
	RMB'000	**RMB'000**
Goodwill on consolidation – Sichuan Longlife	**1,323**	1,323

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

12. Goodwill on consolidation (Continued)

Impairment testing on goodwill

Goodwill acquired through business combinations has been allocated to the Sichuan Longlife CGU for impairment testing. The recoverable amounts of the goodwill on consolidation allocated to this CGU was determined based on a value-in-use calculation using 5 year cash flow projection approved by board of directors.

The post-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolate cash flow projections beyond the 5-year period are as follows:

	31.12.2021	**31.12.2020**
Growth rates		
– 2021	**10%**	10%
– 2022	**4%**	4%
– 2023	**3%**	3%
– 2024	**3%**	3%
– 2025	**3%**	3%
Post-tax discount rates	**14%**	14%

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

Budgeted revenue and gross margins – The budgeted revenue and gross margins are based on past performances and its expectations of market developments.

Budgeted growth rate – Management determined the budgeted growth rate based on experience and its expectations of market developments. The budgeted growth rate used by the Group does not exceed the long-term average growth rate for the industries relevant to the CGU.

Discount rate – The discount rate used represent the current market assessment of the risk specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its Weighted Average Cost of Capital (“WACC”). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumption – Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying amounts of Sichuan Longlife to materially exceed its recoverable amounts.

Based on the assessment, the recoverable amounts allocated to this CGU was computed to be higher than carrying amounts. No impairment loss was recorded during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

13. Inventories

	Group	
	2021 RMB'000	2020 RMB'000
Statement of financial position:		
Raw materials	**5,133**	4,726
Work in progress	**2,668**	2,006
Finished goods	**1,005**	1,801
	8,806	8,533

	2021 RMB'000	2020 RMB'000
Income statement:		
Inventories recognised as an expense in cost of sales	**18,242**	14,663
(Write-back of)/allowance for inventories obsolescence	**–**	(124)

14. Trade receivables

	Group		Company	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Trade receivables	**9,299**	8,355	**–**	–
Less: Allowance impairment	**(258)**	(253)	**–**	–
	9,041	8,102	**–**	–
Note receivables	**3,762**	3,062	**–**	–
Total trade receivables	**12,803**	11,164	**–**	–
Add: Other receivables (Note 15)	**1,294**	1,456	**18**	39
Add: Cash and cash equivalents (Note 16)	**13,976**	15,187	**339**	596
Total financial assets carried at amortised cost	**28,073**	27,807	**357**	635

Trade receivables are non-interest bearing and are generally on 90 to 180 days' terms. They are recognised at their original invoice amounts which represents fair values at initial recognition.

Note receivables are non-interest bearing, unsecured, generally on 180 days' terms and are to be settled in cash.

Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL are as follows:

	Group	
	2021 RMB'000	2020 RMB'000
Movement in allowance accounts:		
Balance as at 1 January	**253**	365
Allowance/(write-back) for the year	**5**	(112)
Balance as at 31 December	**258**	253

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

15. Other receivables

	Group		Company	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Other receivables – nominal amounts	**1,515**	1,677	**18**	39
Less: Allowance for impairment	**(221)**	(221)	**–**	–
	1,294	1,456	**18**	39

Included in other receivable of the Group and the Company is an amount of RMB18,000 (2020: RMB39,000) which is denominated in Singapore dollar.

Expected credit losses

There are no movement in allowance for expected credit losses of other receivables computed based on lifetime ECL in year 2021 and 2020.

16. Cash and cash equivalents

	Group		Company	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Cash at banks and on hand	**13,976**	15,187	**339**	596

Cash at banks earns interest at floating rates based on daily bank deposit rates ranging from 0.05% to 0.4% (2020: 0.1% to 0.9%) per annum.

Cash and short-term deposits denominated in foreign currencies, other than functional currencies of the Group Companies at the end of the reporting period are as follows:

	Group and Company	
	2021 RMB'000	2020 RMB'000
Singapore dollar	**243**	285
United States dollar	**–**	135

17. Bank borrowings

		Group	
	Maturity	2021 RMB'000	2020 RMB'000
Current:			
Fixed rate RMB bank loan	29 January 2022	**15,000**	–
Fixed rate RMB bank loan	16 January 2021	**–**	15,000
		15,000	15,000

The effective interest rate for the RMB bank loans ranges from 5.0% to 6.0% (2020: 5.0% to 6.0%) per annum. The loans are fully repayable upon the maturity date. The loans are secured by a charge over buildings (Note 9) and right-of-use asset of a subsidiary (Note 10).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

17. Bank borrowings (Continued)

A reconciliation of liabilities arising from financing activities is as follows:

	Balance as at 1 January RMB'000	Proceeds RMB'000	Repayment RMB'000	Balance as at 31 December RMB'000
2021				
Bank borrowings	**15,000**	**15,000**	**(15,000)**	**15,000**
2020				
Bank borrowings	15,000	15,000	(15,000)	15,000

18. Trade payables

Trade payables are non-interest bearing and normally settled on 30 to 90 days' terms.

19. Other payables and accrued liabilities

	Group		Company	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Other payables	**7,885**	10,438	**–**	33
Accruals	**1,478**	1,332	**893**	658
VAT payable	**1,186**	146	**–**	–
Advances from customers	**200**	996	**–**	–
Total other payables and accrued liabilities	**10,749**	12,912	**893**	691
Add: Trade payables (Note 18)	**4,430**	4,287	**–**	–
Add: Bank borrowings (Note 17)	**15,000**	15,000	**–**	–
Add: Lease liabilities (Note 10)	**2,137**	873	**118**	184
Less: VAT payable	**(1,186)**	(146)	**–**	–
Less: Advances from customers	**(200)**	(996)	**–**	–
Total financial liabilities carried at amortised cost	**30,930**	31,930	**1,011**	875

Advances from customers are unsecured and non-interest bearing.

Other payables are unsecured, non-interest bearing and have an average term of three to six months.

Included in the other payables and accrued liabilities of the Group and the Company is an amount of RMB893,000 (2020: RMB691,000) which is denominated in Singapore dollar.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

20. Share capital

	Group and Company			
	2021		2020	
	Number of shares	RMB'000	Number of shares	RMB'000
Issued and fully paid ordinary shares:				
Balance as at 1 January and 31 December	**23,000,000**	83,714	**23,000,000**	83,714

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

21. Related party disclosures

Compensation of key management personnel

	Group	
	2021 RMB'000	2020 RMB'000
Short-term employee benefits	**3,051**	3,031
Central Provident Fund contributions	**67**	70
	3,118	3,101
Comprise amounts paid to:		
Directors of the Company		
– Directors' remuneration	**983**	994
– Directors' fees	**663**	690
Other key management personnel	**1,472**	1,417
	3,118	3,101

22. Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees on policies and procedures for the management of these risks, which are executed by the Financial Controller, Head of Treasury and Head of Credit Control. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(i) ***Foreign currency risk***

The Group's operations are primarily in the PRC, of which sales, purchases and its accounts are recorded in Renminbi. The foreign currency risk of the Group arises mainly from its foreign currency cash and short-term deposits, other receivables, other payables and accrued liabilities. The Group does not enter into transactions to hedge against its currency risk.

Sensitivity analysis

A 10% strengthening of Renminbi against Singapore dollar at the reporting date would decrease the Group's profit before taxation by RMB47,000 (2020: decrease the Group's loss before taxation by RMB30,000). A 10% weakening of Renminbi against Singapore dollar would have an equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 180 days when they fall due, which are derived based on the Group's historical information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

(ii) ***Credit risk (Continued)***

To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 180 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

(ii) ***Credit risk (Continued)***

The following are credit risk management practices and quantitative and qualitative information about amounts arising from expected credit losses for trade receivables.

Trade receivables

For trade receivables, the Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted or appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

		Days past due				
	Not past due RMB'000	**< 60 days RMB'000**	**61 – 120 days RMB'000**	**121 – 180 days RMB'000**	**> 180 days RMB'000**	**Total RMB'000**
2021						
Estimated total gross carrying amount at default	**7,559**	**418**	**124**	**351**	**847**	**9,299**
ECL	**–**	**–**	**–**	**–**	**(258)**	**(258)**
						9,041
2020						
Estimated total gross carrying amount at default	6,678	617	82	83	895	8,355
ECL	–	–	–	–	(253)	(253)
						8,102

Information regarding loss allowance movement of trade receivables are disclosed in Notes 14.

Exposure to credit risk

At the statement of financial position, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

The trade and other receivables of the Group are not secured by any credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

(ii) ***Credit risk (Continued)***

Trade receivables (Continued)

Credit risk concentration profile

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

At the end of the reporting period, approximately 36% (2020: 54%) of the Group's trade receivables were due from 5 major customers who are hospitals and medical institutions located in PRC

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

(iii) ***Liquidity risk***

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

(iii) *Liquidity risk (Continued)*

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted payments.

	2021			
	1 year or less RMB'000	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Group				
Financial assets				
Trade receivables	**12,803**	**–**	**–**	**12,803**
Other receivables	**1,294**	**–**	**–**	**1,294**
Cash and cash equivalents	**13,976**	**–**	**–**	**13,976**
Total undiscounted financial assets	**28,073**	**–**	**–**	**28,073**
Financial liabilities				
Bank borrowings	**15,000**	**–**	**–**	**15,000**
Trade and other payables and accrued liabilities (excluding VAT payable and advances from customers)	**13,793**	**–**	**–**	**13,793**
Lease liabilities	**517**	**1,784**	**179**	**2,480**
Total undiscounted financial liabilities	**29,310**	**1,784**	**179**	**31,273**
Total net undiscounted financial liabilities	**(1,237)**	**(1,784)**	**(179)**	**(3,200)**

	2020			
	1 year or less RMB'000	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Group				
Financial assets				
Trade receivables	11,164	–	–	11,164
Other receivables	1,456	–	–	1,456
Cash and cash equivalents	15,187	–	–	15,187
Total undiscounted financial assets	27,807	–	–	27,807
Financial liabilities				
Bank borrowings	15,073	–	–	15,073
Trade and other payables and accrued liabilities (excluding VAT payable and advances from customers)	16,057	–	–	16,057
Lease liabilities	249	529	281	1,059
Total undiscounted financial liabilities	31,379	529	281	32,189
Total net undiscounted financial liabilities	(3,572)	(529)	(281)	(4,382)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

22. Financial risk management objectives and policies (Continued)

(iii) ***Liquidity risk (Continued)***

	2021			
	1 year or less RMB'000	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Company				
Financial assets				
Other receivables	**18**	**–**	**–**	**18**
Cash and cash equivalents	**339**	**–**	**–**	**339**
Total undiscounted financial assets	**357**	**–**	**–**	**357**
Financial liabilities				
Other payables and accrued liabilities	**893**	**–**	**–**	**893**
Lease liabilities	**69**	**52**	**–**	**121**
Total undiscounted financial liabilities	**962**	**52**	**–**	**1,014**
Total net undiscounted financial liabilities	**(605)**	**(52)**	**–**	**(657)**

	2020			
	1 year or less RMB'000	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Company				
Financial assets				
Other receivables	39	–	–	39
Cash and cash equivalents	596	–	–	596
Total undiscounted financial assets	635	–	–	635
Financial liabilities				
Other payables and accrued liabilities	691	–	–	691
Lease liabilities	69	121	–	190
Total undiscounted financial liabilities	760	121	–	881
Total net undiscounted financial liabilities	(125)	(121)	–	(246)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

23. Fair value of financial instruments

(i) Fair value hierarchy

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximate of fair values

Trade receivables (Note 14), other receivables (Note 15), cash and cash equivalents (Note 16), lease liabilities (current) (Note 10), bank borrowings (Note 17), trade payables (Note 18), other payables and accrued liabilities (Note 19).

The carrying amounts of financial assets and liabilities are reasonable approximations of fair value due to their short-term nature.

The carrying amount of lease liabilities (non-current) (Note 10) are reasonable approximation of fair values estimated by discounting expected future cash flows at market incremental borrowing rate for similar types of borrowing arrangements at the statement of financial position date. There were no significant differences between the fair values and the carrying amounts of the lease liabilities of the Group.

24. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2021 and 2020.

The subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the subsidiaries for the financial years ended 31 December 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

24. Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 0% and 30%. The Group includes within net debt, bank borrowings, trade payables, other payables and accrued liabilities and lease liabilities less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company less the abovementioned restricted statutory reserve fund.

	Group	
	2021	**2020**
	RMB'000	**RMB'000**
Bank borrowings	**15,000**	15,000
Trade payables	**4,430**	4,287
Other payables and accrued liabilities	**10,749**	12,912
Lease liabilities	**2,137**	873
Less: Cash and cash equivalents	**(13,976)**	(15,187)
Net debt	**18,340**	17,885
Total equity	**45,484**	44,691
Capital and net debt	**63,824**	62,576
Gearing ratio	**29%**	29%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

25. Segment information

	Western drugs		TCM formulated drugs		Distribution		Eliminations		Group	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue										
External sales	**15,260**	14,278	**37,512**	28,847	**–**	3,987	**–**	–	**52,772**	47,112
Inter segment sales	**–**	93	**–**	3,406	**–**	–	**–**	(3,499)	**–**	–
Total revenue	**15,260**	14,371	**37,512**	32,253	**–**	3,987	**–**	(3,499)	**52,772**	47,112
Result										
Segment result	**817**	(1,333)	**4,925**	(271)	**(246)**	(838)	**–**	–	**5,496**	(2,442)
Unallocated corporate expenses									**(2,351)**	(2,497)
Profit/(loss) from operations									**3,145**	(4,939)
Finance income	**7**	19	**22**	17	**1**	1			**30**	37
Finance costs	**(141)**	(3)	**(917)**	(923)	**(1)**	(10)			**(1,059)**	(936)
Income tax expense	**–**	(7)	**(149)**	–	**–**	–			**(149)**	(7)
Profit/(loss) before non-controlling interest									**1,967**	(5,845)
Non-controlling interest									**(797)**	18
Net Profit/(loss)									**1,170**	(5,827)
Assets and liabilities										
Segment assets	**22,273**	22,701	**69,695**	67,171	**247**	493			**92,215**	90,365
Unallocated corporate assets									**488**	894
Total assets									**92,703**	91,259
Segment liabilities	**4,243**	3,952	**27,004**	27,945	**302**	300			**31,549**	32,197
Unallocated corporate liabilities									**1,012**	887
Total liabilities									**32,561**	33,084
Other segment information										
Capital expenditure (Note A)	**13**	347	**1,569**	571	**–**	–			**1,582**	918
Depreciation and amortisation	**910**	869	**859**	869	**76**	83			**1,845**	1,821
Interest income	**(7)**	(19)	**(22)**	(17)	**(1)**	(1)			**(30)**	(37)
Interest expense	**141**	3	**917**	923	**1**	10			**1,059**	936
(Write-back of)/impairment loss on financial assets – trade and other receivables	**(32)**	(209)	**33**	199	**4**	(102)			**5**	(112)
Write-back of inventories obsolescence	**–**	–	**–**	(9)	**–**	(115)			**–**	(124)
Impairment loss on property, plant and equipment	**–**	507	**6**	837	**–**	–			**6**	1,344
Reversal of impairment loss on right-of-use assets	**–**	–	**–**	(205)	**–**	–			**–**	(205)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

25. Segment information (Continued)

Note A

Capital expenditure consists of purchase of property, plant and equipment and addition to construction in progress.

For management purposes, the Group is organised into business units based on their products, and has 3 reportable operating segments as follows:

(i) ***Western drugs***

Western drugs refer mainly to chemically formulated drugs and are marketed under the "Kinna" brand.

(ii) ***TCM formulated drugs***

TCM formulated drugs refer to Traditional Chinese Medicine and are marketed under the "Longlife" brand.

(iii) ***Distribution***

This segment refers to agency products and internally manufactured products which are marketed through the distribution arm. Starting from FY2021, the Western drugs and TCM formulated drugs segments will be fully responsible for their own distributions and no longer marketed through the distribution arm.

Geographical segment

No segmental analysis by geographical segment is provided as the principal assets employed by the Group are located in the PRC and the Group's turnover and profits were mainly derived from the sale of medicines to domestic customers in the PRC.

Information about major customers

Information regarding customers which account for more than 10% of the revenue derived by any of the entities within the Group is as follows:

	Western drugs		**TCM formulated**		**Distribution**	
	2021 RMB'000	**2020 RMB'000**	**2021 RMB'000**	**2020 RMB'000**	**2021 RMB'000**	**2020 RMB'000**
Customer A	**3,807**	3,501	**–**	–	**–**	–
Customer B	**2,374**	2,228	**–**	–	**–**	–
Customer C	**–**	–	**5,125**	2,244	**–**	–
Customer D	**–**	–	**3,657**	1,734	**–**	–
Customer E	**–**	–	**–**	–	**–**	890
Customer F	**–**	–	**–**	–	**–**	708
	6,181	5,729	**8,782**	3,978	**–**	1,598

26. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the directors on 6 April 2022.

STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2022

Issued and fully paid-up capital	:	S$17,025,532.94
Total number of issued shares excluding treasury shares	:	23,000,000
Total number of treasury shares	:	Nil
Total number of subsidiary holdings	:	Nil
Class of shares	:	Ordinary share
Voting rights	:	one vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	1	0.11	2	0.00
100 – 1,000	378	43.65	232,200	1.01
1,001 – 10,000	409	47.23	1,399,470	6.09
10,001 – 1,000,000	73	8.43	4,693,048	20.40
1,000,001 AND ABOVE	5	0.58	16,675,280	72.50
TOTAL	**866**	**100.00**	**23,000,000**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	CHUNG CHIA-JUNG	5,233,800	22.76
2	SUNTAR INVESTMENT PTE LTD	4,770,000	20.74
3	SHENZHEN SICHUANG MEISHI PHARMACEUTICALS RESEARCH AND DEVELOPMENT CO., LTD	3,000,000	13.04
4	TOP ENTREPRENEUR LIMITED	2,281,200	9.92
5	UOB KAY HIAN PRIVATE LIMITED	1,390,280	6.04
6	RAFFLES NOMINEES (PTE.) LIMITED	694,620	3.02
7	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	518,368	2.25
8	OCBC SECURITIES PRIVATE LIMITED	404,300	1.76
9	WANG JIA	313,410	1.36
10	LONG BIAO	251,200	1.09
11	ZHAO JIE	157,100	0.68
12	PHILLIP SECURITIES PTE LTD	132,200	0.57
13	SEET SEOW MENG VINCENT	129,000	0.56
14	KIW SIN WA	127,800	0.56
15	NGIN CHOON KAY	111,300	0.48
16	LEE CHAY GIAM JOEL	96,350	0.42
17	WAN ZUOFENG	95,100	0.41
18	DBS NOMINEES (PRIVATE) LIMITED	92,000	0.40
19	KHOO THOMAS CLIVE	80,000	0.35
20	CHEN BEI	71,400	0.31
	TOTAL	**19,949,428**	**86.72**

STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2022

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 16 March 2022.

	No. of Ordinary shares			
Name	**Direct Interest**	**%**	**Deemed Interest**	**%**
Chung Chia-Jung	5,233,800	22.76	–	–
Suntar Investment Pte. Ltd.	4,770,000	20.74	–	–
Top Entrepreneur Limited	2,281,200	9.92	–	–
深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd)	3,000,000	13.04	–	–
Yang Yan[1]	–	–	2,281,200	9.92
Sinomem Technology Pte. Ltd.[2]	–	–	4,770,000	20.74
Clean Water Investment Limited[3]	–	–	4,770,000	20.74
Lan Weiguang[4]	–	–	4,770,000	20.74
Wang Shu[5]	–	–	3,000,000	13.04
Liu Bing[6]	–	–	3,000,000	13.04

Notes:

1. Mr Yang Yan is deemed to be interested in the shares held by Top Entrepreneur Limited through his direct interest in Top Entrepreneur Limited.

2. Sinomem Technology Pte. Ltd. which holds not less than 20% of the issued share capital of Suntar Investment Pte Ltd, is deemed to be interested in the shares held by Suntar Investment Pte. Ltd..

3. Clean Water Investment Limited holds entire issued share capital of Sinomem Technology Pte. Ltd. which is the majority shareholder of Suntar Investment Pte. Ltd., is deemed to be interested in shares held by Suntar Investment Pte. Ltd..

4. Dr Lan Weiguang holds not less than 20% interests in Clean Water Investment Limited, which in turns holds 100% of the issued share capital of Sinomem Technology Pte. Ltd., is deemed to be interested in the shares held by Suntar Investment Pte. Ltd..

5. Mr Wang Shu is deemed to be interested in the shares held by 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd) through his controlling interest in 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd).

6. Mr Liu Bing is deemed to be interested in the shares held by 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd) through his controlling interest in 深圳思创美式药物研发有限公司 (Shenzhen Sichuang Meishi Pharmaceuticals Research And Development Co., Ltd).

FREE FLOAT

As at 16 March 2022, approximately 33.54% of the issued share capital of the Company was held in the hands of the public (based on information available to the Company). Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 18th Annual General Meeting (the "AGM") of Pharmesis International Ltd. (the "Company") will be held by way of electronic means on Friday, 29 April 2022 at 11.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Statements by Directors and the Audited Financial Statements of the Company for the financial year ended 31 December 2021 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to Article 91 of the Company's Constitution:

   Ms Chung Chia-Jung **(Resolution 2)**
   [See Explanatory Note (i)]

   [Ms Chung Chia-Jung will, upon re-election as a Director of the Company, remain as a member of the Audit Committee.]

   Mr Chay Kwok Kee
   (Resolution 3)
   [See Explanatory Note (ii)]

   [Mr Chay Kwok Kee will, upon re-election as a Director of the Company, remain as a member of the Audit Committee, Nominating Committee and Remuneration Committee.]

3. To approve the payment of Directors' fees of SGD138,000 for the financial year ending 31 December 2022 to be paid quarterly in advance. **(Resolution 4)**

4. To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

5. To transact any other business which may properly be transacted at an AGM.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution as Ordinary Resolution, with or without any modifications:

6. **Ordinary Resolution: Authority to allot and issue shares**

   "That, pursuant to Section 161 of the Companies Act 1967 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to:–

   (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent. (50%) of the Company's total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to existing shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the Company's total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (2) below). Unless prior shareholder approval is required under the Listing Manual of the SGX-ST, an issue of treasury shares will not require further shareholder approval, and will not be included in the aforementioned limits.

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares excluding treasury shares and subsidiary holdings is based on the Company's total number of issued shares excluding treasury shares and subsidiary holdings at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue, consolidation or subdivision of shares;

Adjustments in accordance with (i) and (ii) above are only to be made in respect of new shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of passing of this resolution.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

(Resolution 6)
[See Explanatory Note (iii)]

By Order of the Board

Chan Lai Yin
Company Secretary

Singapore, 8 April 2022

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Pursuant to Rule 720(6) of the SGX-ST Listing Manual, further information on Ms Chung Chia-Jung and Mr Chay Kwok Kee is set out on Pages [100 to 104] of the Company's Annual Report.

(ii) **Ordinary Resolution 6** proposed in item 6 above, if passed, will authorise and empower the Directors of the Company from the date of the above Meeting until the next AGM to issue shares and/or convertible securities in the Company up to an amount not exceeding in aggregate 50% of the total number of issued shares excluding treasury shares and subsidiary holdings of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20% of the total number of issued shares excluding treasury shares and subsidiary holdings of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.

Notes:

1. The AGM will be held by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of this notice of AGM (the "Notice") will not be sent to members. Instead, this Notice will be sent to members by electronic means via publication on the SGX website at https://www.sgx.com/securities/company-announcements and on the Company's website at http://www.pharmesis.com.

2. Alternative arrangements relating to attendance at the AGM by electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast), submission of questions to the Chairman of the Meeting in advance of the AGM, addressing of substantial and relevant questions and voting by appointing the Chairman of the AGM as proxy at the AGM.

3. Members will not be able to attend the AGM in person. Members may watch the AGM proceedings through a live webcast using their computers, tablets or mobile phones.

   The live webcast can be accessed through an online platform that will be provided to registered and authenticated members on the day before the AGM.

   To access the live webcast, members need to register by no later than **26 April 2022, 11.00 a.m.** being 72 hours before the time fixed for the AGM ("Registration Deadline") to enable the Company to verify their status. Authenticated members will receive an email a day before the AGM, containing the link which the live webcast can be accessed, and the login details and credentials.

   Members can register by filling up the AGM webcast registration form enclosed and emailing the completed form to **pharmesis@gmail.com** and we advise all members to register as early as possible.

   Members are advised to also check the Junk folder of their emails in case the emails are directed there instead of Inbox.

   Members who registered by the Registration Deadline but did not receive an email response by 28 April 2021, 12 noon may contact the Company at +65 6846 0766 or by email at **pharmesis@gmail.com**.

4. **A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM.** Please note that a member may not vote at the AGM otherwise than by way of appointing the Chairman of the Meeting as the member's proxy. Printed copies of the proxy form for the AGM will not be sent to members. Instead, this proxy form for the AGM will be sent to members by electronic means via publication on the SGX website at https://www.sgx.com/securities/company-announcements and on the Company's website at http://www.pharmesis.com.

5. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the proxy form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

   CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes at least seven (7) working days before the AGM (i.e. by 11.00 a.m. on 20 April 2022).

6. The Chairman of the Meeting, as proxy, need not be a member of the Company.

NOTICE OF ANNUAL GENERAL MEETING

7. The instrument appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:

   (i) if submitted by **post**, be lodged with the Company's Share Registrar, InCorp Corporate Services Pte. Ltd. at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712; or

   (ii) if submitted **electronically**, be submitted via email to the Company at **pharmesis@gmail.com** in either case, by **no later than 27 April 2022, 11.00 a.m.**, being at least 48 hours before the time for holding the AGM.

   A member who wishes to submit an instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided in sub-paragraph (i) above, or before scanning and sending it by email to the email address provided in sub-paragraph (ii) above.

   Members are strongly encouraged to submit completed proxy forms electronically via email in view of the current COVID-19 situation.

8. **Shareholders will not be able to ask questions at the AGM during the "live" audio-visual webcast; therefore, it is important for shareholders to submit their questions related to the resolutions to be tabled for approval at the AGM in advance of the Meeting.**

9. A member who wishes to raise any matters at the AGM must submit such matters or any questions related to the AGM via email to the Company at **pharmesis@gmail.com** or by post to 5 Kallang Sector, #03-02, Singapore 349279. Members are required to submit the matters they wish to be heard on and/or their questions no later than **18 April 2022 at 11.00 a.m.**.

   When sending in your questions via email or by post, please also provide us with the following details:

   - your full name;
   - your address;
   - number of shares held; and
   - the manner in which you hold shares (e.g., via CDP, CPF or SRS).

   We will endeavour to address all substantial and relevant questions received from members before 7.00 p.m. on 22 April 2022 by publishing our responses on our corporate website and on SGXNET.

10. The Annual Report 2021 is published on the Company's website at http://www.pharmesis.com and on the SGX website at https://www.sgx.com/securities/company-announcements.

Personal Data Privacy:

By submitting an instrument appointing the Chairman of the Meeting as proxy to vote at the AGM and/or any adjournment thereof and/or the AGM webcast registration form, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"); (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims demands, losses and damages as a result of the member's breach of warranty.

Pharmesis International Ltd

(Company Registration No. 200309641E)

AGM webcast registration form

Annual General Meeting: 29 April 2022 at 11.00 am

Shareholder Information

Full Name* ____________________

As per CDP/CPF/SRS/Scrip-based records (If your shares are held under Joint Shareholders, please fill in both shareholders' names as per the records)

Full NRIC or Passport Number* ____________________

IMPORTANT: Full name and full NRIC/passport number will be required for purposes of verification and issuance of webcast login credential to you.

Email Address* ____________________

All communication regarding pre-registration and access details after verification will be sent to this email address.

Shareholding Type*

☐ CDP Direct Account Holder

☐ CPF/SRS Investment Account Holder

☐ Scrip-based Holder

☐ Corporate Shareholder

Number of shares held ____________________

Contact Number ____________________

Questions to ask the Board (if any)

____

____

____

____

____

____

Personal Data Privacy:

By submitting this registration form, the Member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 8 April 2022.

Note:

To access the live webcast, members need to register by no later than **26 April 2022, 11.00 a.m.** being 72 hours before the time fixed for the AGM ("Registration Deadline") to enable the Company to verify their status. Authenticated members will receive an email a day before the AGM, containing the link through which the live webcast can be accessed, and the login details and credentials. Members can register by filling up this form emailing the completed form to **pharmesis@gmail.com** and we advise all members to register as early as possible.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

The following additional information on Ms. Chung Chia-Jung and Mr. Chay Kwok Kee, all of whom are seeking re-appointment as Director at the forthcoming annual general meeting, is to be read in conjunction with their respective biographies on page 14.

	MS. CHUNG CHIA-JUNG	MR. CHAY KWOK KEE
Date of Appointment	15 December 2017	27 April 2018
Date of last re-appointment	26 June 2020	26 April 2019
Age	33	69
Country of principal residence	Taiwan	Singapore
The Board's comments on this re-appointment	The re-election of Ms Chung Chia-Jung as the Non-Independent Non-Executive Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration her qualifications, past experiences and overall contribution since she was appointed as Non-Independent Non-Executive Director of the Company.	The re-election of Mr Chay Kwok Kee as the Independent Non-Executive Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his qualifications, past experiences and overall contribution since he was appointed as an Independent Non-Executive Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.	Non-Independent Non-Executive Director and Member of Audit Committee.	Independent Non-Executive Director, member of the Audit Committee, NC and Remuneration Committee
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	No	No
Conflict of interests (including any competing business)	No	No
Working experience and occupation(s) during the past 10 years	2014 – Present Chigin Metal Enterprise Co. Ltd. Vice President	Freelance Business Consultant
Undertaking has been submitted to the listed issuer in the form of Appendix 7.7 under Rule 720(1)	Yes	Yes

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MS. CHUNG CHIA-JUNG	MR. CHAY KWOK KEE
Shareholding interest in the listed issuer and its subsidiaries	5,233,800 shares in the listed issuer	Nil
Other Principal Commitments Including Directorships: Past (for the last 5 years)	Current Occupation	Freelance Business Consultant
Present	Current Occupation	Freelance Business Consultant
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MS. CHUNG CHIA-JUNG	MR. CHAY KWOK KEE
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MS. CHUNG CHIA-JUNG	MR. CHAY KWOK KEE
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:– (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MS. CHUNG CHIA-JUNG	MR. CHAY KWOK KEE
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?		
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No

Pharmesis International Ltd.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200309641E)

Important

1) The 18th annual general meeting (the "Meeting") will be held by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of the notice of Meeting (the "Notice") together with proxy form will not be sent to members. Instead, the Notice and proxy form will be sent to members by electronic means via publication on the Company's website at http://www.pharmesis.com/ and on the SGX website at https://www.sgx.com/securities/companyannouncements.
2) Alternative arrangements relating to attendance at the Meeting by electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast), submission of questions to the Chairman of the Meeting in advance of the Meeting, addressing of substantial and relevant questions and voting by appointing the Chairman of the Meeting as proxy at the Meeting as set out in the Notice and in the Company's announcement dated 8 April 2022 (the "Announcement"). This Announcement may be accessed at the Company's website at http://www.pharmesis.com/and on the SGX website at https://www.sgx.com/securities/company-announcements.
3) A member will not be able to attend the Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to vote on his/her/its behalf at the Meeting if such member wishes to exercise his/her/its voting rights at the Meeting.
4) This proxy form is not valid for use by investors holdings shares in the Company through relevant intermediaries (as defined in Section 181 of the Companies Act 1967 ("Investor") (including investors, holding through Central Provident Fund Investment Scheme ("CPF") or Supplementary Retirement Scheme ("SRS") ("CPF/SRS Investors") and shall be ineffective for all intents and purposes if used or purported to be used by them. An Investor who wishes to vote should instead approach his/her relevant intermediary as soon as possible to specify voting instructions. A CPF/SRS Investors who wishes to vote should approach his/her CPF Agent Banks or SRS Operator to submit their votes at least seven (7) working days before the AGM (i.e. by 11.00 a.m. on 20 April 2022).
5) By submitting this proxy form, the member accepts and agrees to the personal data privacy terms set out in the Notice dated 8 April 2022.
6) Please read the notes overleaf which contain instructions on, inter alia, the appointment of the Chairman of the Meeting as a member's proxy to vote on his/her/its behalf at the Meeting.

PROXY FORM
Annual General Meeting

(Please read notes overleaf before completing this form.)

I/We* ______________________ (Name) ______________ (NRIC/Passport/Co. Registration No.)

____ (Address)

being a member/members* of Pharmesis International Ltd. (the "**Company**") hereby appoint the Chairman of the Annual General Meeting (the "**Meeting**") as my/our proxy/proxies to vote for me/us on my/our behalf at the Meeting to be held by way of electronic means, on 29 April 2022 at 11.00 a.m. and at any adjournment thereof in the following manner.

(Voting will be conducted by poll. If you wish the Chairman of the Meeting as your proxy to exercise all your votes "For" or "Against" the relevant resolution, please tick [√] within the relevant box provided. Alternatively, please indicate the number of votes "For" or "Against" each resolution. If you wish the Chairman of the Meeting as your proxy to abstain from voting on a resolution, please indicate with a "√" in the "Abstain" box. Alternatively, please indicate the number of shares that the Chairman of the Meeting as your proxy is directed to abstain from voting. **In the absence of specific directions, the appointment of the Chairman of the Meeting as your proxy will be treated as invalid.)**

No.	ORDINARY BUSINESS	No. of votes *For	No. of votes *Against	No. of votes *Abstain
1.	To receive and adopt the Statements by Directors and Audited Financial Statements for the financial year ended 31 December 2021			
2.	To re-elect Ms Chung Chia-Jung, who is retiring under Article 91 of the Company's Constitution			
3.	To re-elect Mr Chay Kwok Kee, who is retiring under Article 91 of the Company's Constitution			
4.	To approve payment of Directors' Fees			
5.	To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration			
	SPECIAL BUSINESS			
6.	To authorise the Directors to allot and issue new shares			

Dated this ______day of ________________ 2022

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature of Shareholder(s)
and Common Seal of Corporate Shareholder

***Delete where applicable**

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. Due to current COVID-19 situation and the Company's efforts to minimise physical interactions and COVID-19 transmission risks to a minimum, the Annual General Meeting of the Company will be held by way of electronic means, a member will not be able to attend the Meeting in person. **A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to vote on his/her/its behalf at the Meeting if such member wishes to exercise his/her/its voting rights at the Meeting.**

   Please note that a member may not vote at the Meeting otherwise than by way of appointing the Chairman of the Meeting as the member's proxy. This proxy form will be published on the Company's website at http://www.pharmesis.com/ and on the SGX website at https://www.sgx.com/securities/company-announcements.

   Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the proxy form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

   CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes at least seven (7) working days before the AGM (i.e. by 11.00 a.m. on 20 April 2022).

3. The Chairman of the Meeting, as proxy, need not be a member of the Company.

4. The instrument appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:

   (i) if submitted by post, be lodged with the Company's Share Registrar, InCorp Corporate Services Pte. Ltd. at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712; or

   (ii) if submitted electronically, be submitted via email to the Company at **pharmesis@gmail.com** in either case, by **no later than 27 April 2022, 11.00 a.m.**, being at least 48 hours before the time for holding the AGM.

   A member who wishes to submit an instrument of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided in sub-paragraph (i) above, or before scanning and sending it by email to the email address provided in sub-paragraph (ii) above.

   Members are strongly encouraged to submit completed proxy forms electronically via email in view of the current COVID-19 situation.

5. The instrument appointing the Chairman of the Meeting as proxy must be under the hand of the appointer or his attorney duly authorised in writing. Where the instrument appointing the Chairman of the Meeting as proxy is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing the Chairman of the Meeting as proxy is executed by an attorney on behalf of the appointer, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

6. A corporation which is a member may authorise by resolution of its directors or governing body such person as it thinks fit to act as its representative at the AGM, in accordance with section 179 of the Companies Act 1967 of Singapore.

7. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, In.Corp Corporate Services Pte. Ltd. at 30 Cecil Street, #19-08 Prudential Tower, Singapore 049712, not less than 48 hours before the time appointed for the AGM.

8. Members should take note that after the deadline for the submission of proxy forms, the deadline being 27 April 2022 at 11.00 a.m., that is 48 hours before the time for holding the Meeting, they cannot change their votes as indicated in the box provided above.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM, as certified by CDP to the Company.

Personal Data Privacy:

By submitting an instrument appointing the Chairman of the Meeting as proxy to vote at the AGM and/or any adjournment thereof, the Member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 8 April 2022.

PHARMESIS

PHARMESIS INTERNATIONAL LTD.

COMPANY REGISTRATION NUMBER: 200309641E

5 KALLANG SECTOR #03-02 SINGAPORE 349279

WWW.PHARMESIS.COM