

PHARMESIS INTERNATIONAL LTD.

Co. Registration No. 200309641E

Financial Statements and Dividend Announcement for the 6 months ended 30 June 2019

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

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

1. UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SECOND QUARTER ENDED 30 JUNE 2019

	Group			Group		
	3 months ended	3 months ended		6 months ended	6 months ended	
	30.06.2019	30.06.2018	+ / (-)	30.06.2019	30.06.2018	+ / (-)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Revenue	10,406	19,261	(46.0)	18,444	34,656	(46.8)
Cost of sales	(4,985)	(11,496)	(56.6)	(8,510)	(19,202)	(55.7)
Gross Profit	5,421	7,765	(30.2)	9,934	15,454	(35.7)
Other (expense)/income	(71)	627	n.m.	(20)	1,899	n.m.
Selling and distribution costs	(4,466)	(5,050)	(11.6)	(9,205)	(10,337)	(11.0)
Administrative costs	(2,788)	(2,553)	9.2	(6,018)	(5,006)	20.2
(Loss)/profit from operations	(1,904)	789	n.m.	(5,309)	2,010	n.m.
Finance income	17	38	(55.3)	45	69	(34.8)
Finance costs	(272)	(232)	17.2	(467)	(433)	7.9
Net finance costs	(255)	(194)	31.4	(422)	(364)	15.9
(Loss)/profit before tax	(2,159)	595	n.m.	(5,731)	1,646	n.m.
Income tax expense	(31)	-	-	(31)	-	-
(Loss)/profit for the period	(2,190)	595	n.m.	(5,762)	1,646	n.m.
Attributable to:						
Equity holders of the Company	(2,200)	(77)	n.m.	(4,924)	178	n.m.
Non-controlling interest	10	672	n.m.	(838)	1,468	n.m.
(Loss)/profit for the period	(2,190)	595	n.m.	(5,762)	1,646	n.m.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

	Group			Group		
	3 months ended	3 months ended		6 months ended	6 months ended	
	30.06.2019	30.06.2018	+ / (-)	30.06.2019	30.06.2018	+ / (-)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Interest Income	17	38	(55.3)	45	69	(34.8)
Government grant	-	550	n.m.	7	620	n.m.
Write back of allowance for doubtful receivables - trade	-	55	n.m.	-	176	n.m.
Depreciation and amortisation	(499)	(349)	43.0	(936)	(624)	50.0
Foreign exchange (loss)/gain	(74)	77	n.m.	(30)	(4)	n.m.

n.m. denotes not meaningful

2. UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

	Group			
	3 months ended	3 months ended	6 months ended	6 months ended
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/profit for the period	(2,190)	595	(5,762)	1,646
Other comprehensive income	-	-	-	-
Total comprehensive income	(2,190)	595	(5,762)	1,646
Total comprehensive income attributable to:				
Equity holders of the Company	(2,200)	(77)	(4,924)	178
Non-controlling interest	10	672	(838)	1,468
	(2,190)	595	(5,762)	1,646

1(b)(i)

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

UNAUDITED STATEMENTS OF FINANCIAL POSITION

	GROUP		COMPANY	
	As at 30.6.2019 RMB'000	As at 31.12.2018 RMB'000	As at 30.6.2019 RMB'000	As at 31.12.2018 RMB'000
Non-current assets				
Property, plant and equipment	11,530	12,176	8	-
Land use rights	7,486	7,620	-	-
Construction-in-progress	28,408	28,408	-	-
Right-of-use assets	891	-	72	-
Investments in subsidiaries	-	-	54,999	54,999
Goodwill on consolidation	1,323	1,323	-	-
	49,638	49,527	55,079	54,999
Current assets				
Inventories	10,728	9,725	-	-
Trade receivables	13,786	19,527	-	-
Prepaid expenses	199	167	29	73
Other receivables	12,021	14,530	20	21
Tax recoverable	107	107	-	-
Cash and cash equivalents	15,418	34,715	1,799	3,040
	52,259	78,771	1,848	3,134
Current liabilities				
Bank borrowings	15,000	15,000	-	-
Trade payables	2,280	3,380	-	-
Accrued liabilities and other payables	5,810	9,872	694	837
Lease liabilities	222	-	60	-
Tax payable	72	312	-	3
	23,384	28,564	754	840
Net current assets	28,875	50,207	1,094	2,294
Non-current liabilities				
Lease liabilities	684	-	13	-
Deferred tax liabilities	314	757	-	-
	998	757	13	-
Net assets	77,515	98,977	56,160	57,293
Equity attributable to equity holders of the Company				
Share capital	83,714	83,714	83,714	83,714
Reserves	(9,236)	6,548	(27,554)	(26,421)
Share capital and Reserves	74,478	90,262	56,160	57,293
Non-controlling interest	3,037	8,715	-	-
Total equity	77,515	98,977	56,160	57,293

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

Amount repayable in one year or less, or on demand

In RMB'000

As at 30 June 2019		As at 31 December 2018	
Secured	Unsecured	Secured	Unsecured
15,000	-	15,000	-

Amount repayable after one year

In RMB'000

As at 30 June 2019		As at 31 December 2018	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

The bank borrowings are secured over the land use rights and buildings of a subsidiary.

1(c)

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

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

	Group			
	3 months ended 30.06.2019	3 months ended 30.06.2018	6 months ended 30.06.2019	6 months ended 30.06.2018
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
(Loss)/profit before tax	(2,159)	595	(5,731)	1,646
Adjustments for:				
Write back of allowance for doubtful trade debts	-	(55)	-	(176)
Depreciation and amortisation	499	349	936	624
Interest expense	272	232	467	433
Interest income	(17)	(38)	(45)	(69)
Operating (loss)/profit before changes in working capital	(1,405)	1,083	(4,373)	2,458
Changes in working capital				
Trade receivables	1,044	2,650	5,741	5,125
Prepayments, deposits and other receivables	482	1,954	2,478	3,479
Inventories	(180)	1,229	(1,003)	(1,303)
Trade payables	(403)	1,383	(1,100)	1,356
Accrued liabilities and other payables	1,185	(6,346)	(4,139)	(7,194)
Cash generated/(used in) from operations	723	1,953	(2,396)	3,921
Interest received	17	38	45	69
Interest paid	(272)	(232)	(467)	(433)
Income tax paid	(602)	(11)	(714)	(182)
Net cash flows (used in)/from operating activities	(134)	1,748	(3,532)	3,375
Cash flows from investing activities				
Acquisition of construction in progress	-	(304)	-	(423)
Acquisition of non-controlling interest	(15,700)	-	(15,700)	-
Acquisition of property, plant and equipment	(5)	14	(65)	(1,277)
Net cash flows used in investing activities	(15,705)	(290)	(15,765)	(1,700)
Cash flows from financing activities				
Proceeds from bank borrowings	-	-	15,000	15,000
Repayment of bank borrowings	-	-	(15,000)	(15,000)
Net cash flows from financing activities	-	-	-	-
Net (decrease)/increase in cash and cash equivalents	(15,839)	1,458	(19,297)	1,675
Cash and cash equivalents at beginning of period	31,257	35,702	34,715	35,485
Cash and cash equivalents at end of period	15,418	37,160	15,418	37,160

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

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

<u>Group</u> <u>In RMB'000</u>	Attributable to equity holders of the Company						<u>Total Equity</u>
	<u>Share Capital</u>	<u>Premium paid on acquisition of non-controlling interest</u>	<u>Statutory Reserve</u>	<u>Accumulated Losses</u>	<u>Total</u>	<u>Non-controlling interest</u>	
At 1 January 2019	83,714	-	12,392	(5,844)	90,262	8,715	98,977
Total comprehensive income	-	-	-	(2,724)	(2,724)	(848)	(3,572)
At 31 March 2019	83,714	-	12,392	(8,568)	87,538	7,867	95,405
Acquisition of non-controlling interest	-	(10,860)	-	-	(10,860)	(4,840)	(15,700)
Total comprehensive income	-	-	-	(2,200)	(2,200)	10	(2,190)
At 30 June 2019	83,714	(10,860)	12,392	(10,768)	74,478	3,037	77,515

<u>Group</u> <u>In RMB'000</u>	Employee Share Options Reserve						<u>Total Equity</u>
	<u>Share Capital</u>	<u>Employee Share Options Reserve</u>	<u>Statutory Reserve</u>	<u>Accumulated Losses</u>	<u>Total</u>	<u>Non-controlling interest</u>	
At 1 January 2018	83,714	4,431	11,924	(11,020)	89,049	4,964	94,013
Expiry of employee share options	-	(4,431)	-	4,431	-	-	-
Total comprehensive income	-	-	-	255	255	796	1,051
At 31 March 2018	83,714	-	11,924	(6,334)	89,304	5,760	95,064
Total comprehensive income	-	-	-	(77)	(77)	672	595
At 30 June 2018	83,714	-	11,924	(6,411)	89,227	6,432	95,659

<u>Company</u> <u>In RMB'000</u>	<u>Share Capital</u>	<u>Employee Share Options Reserve</u>	<u>Accumulated Losses</u>	<u>Total Equity</u>
At 1 January 2019	83,714	-	(26,421)	57,293
Total comprehensive income	-	-	(1,059)	(1,059)
At 31 March 2019	83,714	-	(27,480)	56,234
Total comprehensive income	-	-	(74)	(74)
At 30 June 2019	83,714	-	(27,554)	56,160

At 1 January 2018	83,714	4,431	(27,156)	60,989
Expiry of employee share options	-	(4,431)	4,431	-
Total comprehensive income	-	-	(1,001)	(1,001)
At 31 March 2018	83,714	-	(23,726)	59,988
Total comprehensive income	-	-	(869)	(869)
At 30 June 2018	83,714	-	(24,595)	59,119

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

Share Capital

There is no change in the Company's issued share capital since the previous financial period ended 31 December 2018.

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

Total number of issued shares as at 30 June 2019 and 31 December 2018: 23,000,000 ordinary shares

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements as at 31 December 2018.

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

The Group and the Company adopted the following new Singapore Financial Reporting Standards (International) ("SFRS(I)"), amendments and interpretations of SFRS(I)s effective for annual periods beginning on or after 1 January 2019:

- SFRS(I)16 Leases

SFRS(I) 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has applied SFRS(I) 16 using the modified retrospective approach.

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

In RMB cents	Group			
	3 months ended 30.06.2019	3 months ended 30.06.2018	6 months ended 30.06.2019	6 months ended 30.06.2018
(i) Based on weighted average number of shares	(9.6)	(0.3)	(21.4)	0.8
Weighted average number of shares	23,000,000	23,000,000	23,000,000	23,000,000

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

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

In RMB	Group		Company	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Net asset value per ordinary share	3.24	3.92	2.44	2.49
No. of shares in computing NAV	23,000,000	23,000,000	23,000,000	23,000,000

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

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

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

INCOME STATEMENT

At the end of 2018, the Chinese government implemented a new purchase-with-target-quantity in "4+7" cities policy, which caused a huge decrease of drug prices in pharmaceutical industry. This new policy has also led to intense price wars between pharmaceutical companies. Consequently, the Group's sales has decreased significantly starting from FY2019 and affected our 1Q 2019 and 2Q 2019 results.

The Group's revenue decreased by RMB 8.9 million or 46.0% from RMB 19.3 million in 2Q 2018 to RMB 10.4 million in 2Q 2019. Revenue from prescribed drugs decreased by RMB 0.6 million mainly due to lower revenue from ATT products. Revenue from non-prescribed drugs/distribution segment decreased by RMB 8.3 million mainly due to lower revenue from Er Ding products.

Gross profit margin increased from 40.3% in 2Q 2018 to 52.1% in 2Q 2019 mainly due to higher sales mix from ATT products which have higher margins. Other income decreased from RMB 0.6 million in 2Q 2018 to a loss of RMB 0.1 million in 2Q 2019. This was mainly due to the absence of government grants and foreign exchange translation loss in 2Q 2019.

Selling and distribution costs decreased from RMB 5.1 million in 2Q 2018 to RMB 4.5 million in 2Q 2019 following the lower sales volume. Administrative costs increased from RMB 2.6 million in 2Q 2018 to RMB 2.8 million for 2Q 2019 mainly due to higher social insurance expenses and absence of write-back-of impairment allowance for trade receivables.

Finance income decreased from RMB 38,000 in 2Q 2018 to RMB 17,000 for 2Q 2019, mainly due to lower interest income from cash and cash equivalents. Finance costs increased from RMB 232,000 in 2Q 2018 to RMB 272,000 for 2Q 2019 mainly due to finance costs incurred for right-of-use assets.

As a result of the above, the Group recorded a net loss after tax attributable to equity holders of the Company of RMB 2.2 million in 2Q 2019, as compared to a net loss after tax of RMB 0.1 million in 2Q 2018.

STATEMENT OF FINANCIAL POSITION

The Group's non-current assets were RMB 49.6 million as at 30 June 2019, an increase of RMB 0.1 million from RMB 49.5 million as at 31 December 2018. This was mainly due to the increase in right-of-use assets and decrease in property, plant and equipment and land use rights.

The Group's current assets were RMB 52.3 million as at 30 June 2019, a decrease of RMB 26.5 million from RMB 78.8 million as at 31 December 2018. This was mainly due to lower trade receivables, other receivables, cash and cash equivalents and higher inventories and prepaid expenses.

The Group's current liabilities were RMB 23.4 million as at 30 June 2019, a decrease of RMB 5.2 million from RMB 28.6 million as at 31 December 2018 mainly due to decrease in trade payables, accrued liabilities & other payables, tax payable and increase in lease liabilities.

The Group's non-current liabilities were RMB 1.0 million as at 30 June 2019, an increase of RMB 0.2 million from RMB 0.8 million as at 31 December 2018 mainly due to increase in lease liabilities and decrease in deferred tax liabilities.

STATEMENT OF CASH FLOWS

The Group's net cash flow used in operating activities for the second quarter was RMB 0.1 million, mainly due to cash generated from its operations and interest and income tax paid.

Net cash used in investing activities for the second quarter amounted to RMB 15.7 million, incurred mainly for the acquisition of 30% of Longlife from non-controlling interest.

As at 30 June 2019, the Group had cash and cash equivalents of RMB 15.4 million.

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

In line with the prospect statement made in 1Q 2019.

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

As explained in paragraph 8, China's plan to drive down drug prices through the newly introduced purchase-with-target-quantity policy in "4+7" cities policy has intensified the competition between pharmaceutical companies and has a great negative impact on the Group's revenue and profit. The Group's business environment has therefore become very challenging. Management will continue to focus on improving sales and managing its operations cost-effectively. In view of challenging conditions facing the pharmaceutical industry, management has decided to delay the completion of the construction of the Jiangyou manufacturing facility.

11. Dividend

(a) Current Financial Period Reported On

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect and the reason(s) for the decision.

No dividends have been recommended for the current financial period ended 30 June 2019 in view of the accumulated losses.

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

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

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

The Board of Directors of Pharmesis International Ltd. hereby confirms that, to the best of their knowledge, nothing has come to their attention which may render the unaudited financial statements for the second quarter ended 30 June 2019 to be false or misleading in any material aspect.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers under Rule 720(1).

The Company has procured all the required undertakings as required under Rule 720(1).

16. Disclose the status on the use of proceeds raised from IPO and any offerings pursuant to Chapter 8 and whether the use of proceeds is in accordance with the stated use.

The Company has not 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.

BY ORDER OF THE BOARD

**WU XUEDAN
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER**

8 August 2019