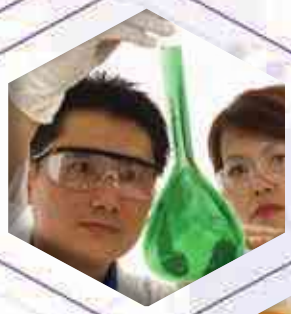
PHARMESIS

PHARMESIS INTERNATIONAL LTD.

ANNUAL REPORT 2018






DEVELOPING **SOLUTIONS,** CHANGING **LIVES**

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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 the 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 new wholly-owned subsidiary, Chengdu Pharmesis Pharmaceutical Co., Ltd. With this acquisition, the Group has 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.



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



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



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



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



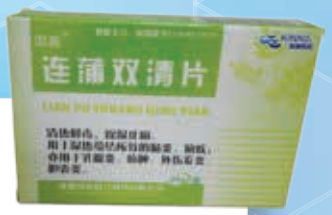
SHULINGHOU
舒灵喉

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，以及因用嗓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 December 31, 2018 ("FY2018").

FY2018 continues to be another challenging year for the pharmaceutical industry in the People's Republic of China ("PRC"). The US-China trade war continued to weigh on the slowing economy in PRC. However, we took these challenges in our stride. Despite the challenging business environment, we achieved a turnaround for FY2018, as a result of our concerted efforts in focusing on our non-prescribed drugs business as well as favourable industry policies introduced by the government.

YEAR IN REVIEW

In financial year 2018, the Group registered total revenue of RMB64.3 million, compared with revenue of RMB69.7 million in the previous year, a slight decrease of 7.7%. This was mainly due to lower sales of our main non-prescription drug products, Er Ding granules, which was affected by increased competition from new competitors.

Higher contributions from higher margin prescribed drugs segment helped to increase the gross profit margin slightly from 45.1% in FY2017 to 48.6% in FY2018.

Other income increased by RMB4.5 million from RMB0.6 million in FY2017 to RMB5.1 million in FY2018 mainly due to higher government grant, one-off relocation compensation and foreign exchange gain in FY2018.

Selling and distribution costs decreased by RMB1.6 million or 7.3% from RMB21.6 million in FY2017 to RMB20.0 million in FY2018 mainly due to lower revenue. Administrative costs decreased by RMB1.2 million or 11.9% from RMB10.7 million in FY2017 to RMB9.5 million in FY2018 mainly due to write-back of allowance for doubtful debts.

As a result, the Group recorded a net profit attributable to shareholders of RMB1.3 million for FY2018 compared to a loss of RMB2.5 million for FY2017.

INDUSTRY OUTLOOK

With a rapidly ageing population and four million new cancer patients each year, China will continue its medical reform to reduce drug prices. The state's basic medical insurance programme is burdened with ballooning expenses and is estimated to run into deficit as early as 2020[1]. Starting from end of FY2018, governments of 11 cities had taken over procurement of drugs for their hospitals. They gave at least 60 per cent to 70 per cent of orders for 31 specified, mostly generic, treatments to the lowest and best-stocked bidder[1]. The business environment remains challenging and our drugs will continue to face intense competition and pricing pressure.

BUILDING BRAND AWARENESS

Brand awareness is one of the key factors that will influence consumers' choice of pharmaceutical products. Therefore, we are continuously stepping up our efforts in brand building activities to further capture market share in the industry. We have been actively participating in National Drug Fair which is held twice annually, so as to strengthen our reputation as a manufacturer of high quality products and expand our distribution channels. This drug fair provides a platform for the Group to showcase our products to a large number of distributors, retailers, pharmacists, hospital officials and expand our customer pool.



New office at Ying Bin Street (迎宾大道新办公室)



Facility at Jiangyou (江油设施)

FOCUS ON RESEARCH AND DEVELOPMENT

We will continue to focus on the research and development activities with the aim of improving our existing products as well as innovating new products. As people are getting more health conscious than before, consumers prefer to buy sugarless pharmaceutical products. In FY2018, we have successfully replaced the existing ErDing granules with sugar, with our new revised product, sugarless ErDing granules.

FURTHER PENETRATE NON-PRESCRIBED DRUGS MARKET

As announced on 31 December 2018, the Group is working on the acquisition of an additional 30% shares in its 51% owned subsidiary, Sichuan Longlife Pharmaceutical Co. Ltd ("Longlife"). This acquisition provides an opportunity for the Group to increase its investment in the non-prescribed drugs portfolio as well as consolidate a higher percentage of Longlife's profits. In addition, the construction of our third manufacturing facility at Jiangyou will be completed this year. The Group's production capacity will be increased when the new manufacturing facility at Jiangyou starts operating and allow the Group to gain greater market share in the non-prescribed drugs industry.

LETTER TO SHAREHOLDERS

APPRECIATION AND ACKNOWLEDGEMENT

We would like to express our gratitude to the management team and the staff for their hard work and commitment in 2018. 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.

CHEW HENG CHING
Independent Non-Executive Chairman

WU XUEDAN
Chief Executive Officer and Executive Director

[1] Selling drugs is no longer a free lunch in China's pharma industry
https://www.businesstimes.com.sg/consumer/selling-drugs-is-no-longer-a-free-lunch-in-chinas-pharma-industry



Our third manufacturing facility at Jiangyou (在江油的第三个生产设施)

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2018年12月31日（“2018财政年”）的业绩及业务报告。

对于中华人民共和国（“中国”）的制药行业来说，2018财政年仍然是充满挑战的一年。中美贸易战给中国持续放缓的经济带来冲击。然而，面对这充满挑战的经济环境，经我们齐心的努力，转形关注非处方药业以及中国政府推出对医药行业有利的政策，我们在2018财政年成功转亏为盈,取得净利润。

年度回顾

在2018财政年，集团的总营业收入为人民币6,430万元，同比去年人民币6,970百万元的收入，略微减少7.7%。新竞争者的加入，使竞争加剧，导致非处方药产品二丁颗粒的销售下降。

处方药品的较高贡献，将毛利率从2017财政年的45.1%略微增加至2018财政年的48.6%。

其他收入由2017财政年的人民币60万元增加人民币450万元至2018财政年的人民币510万元，主要是由于政府补贴增加，一次性搬迁补偿及外汇收益增加。

销售及分销费用于2018年财政年同比去年下跌7.3%至2,000万元，主要由于收入减少。行政费用同比去年下降11.9%至人民币950万元，主要由于坏帐准备转回所致。

因此，集团于2018财政年取得人民币130万元的净利润。

行业展望

随着中国人口迅速老化以及每年有400万新癌症患者，中国将继续进行医疗改革，以降低药品价格。中国的基本医疗保险承担了不断膨胀的开支，预计最早将在2020年出现赤字。从2018年年底开始，国家组织“4+7”城市药品集中采购试点，11个城市的政府将接管为医院采购药品。市政府将向最低价和最多库存的投标者提供至少60%至70%的订单，其中共涉及31个品种，选择部分通过质量和疗效一致性评价的仿制药品。处方药商业环境仍然充满挑战，集团的药品将继续面临激烈的竞争和价格压力。

建立品牌知名度

品牌知名度是影响顾客挑选药品的关键因素之一。因此我们会加强品牌建设活动的力度以进一步获取更多的市场份额。我们一直积极参加每年举办两次的全国药品展览销会，以加强我们作为高品质产品制造商的声誉，并扩大我们的分销渠道。此药品展览销会为集团提供平台，向众多分销商，零售商，药剂师，医院官员展示我们的产品，并扩展我们的客户群。



主席及总裁献词

专注于研究与开发

我们将继续专注于研发活动，旨在改善现有产品以及创新产品。随着人们比以往更加关注健康，消费者更愿意购买无糖药品。在2018财政年里，我们成功推出新改良研发的无糖二丁颗粒，取代了原有的含糖二丁颗粒。

加大力度发展非处方药

于二零一八年十二月三十一日宣布，集团将收购拥有51%股权的子公司，四川古蔺肝苏药业有限公司（“古蔺”）的额外30%股份。此次收购为集团提供了增加对非处方药投资的机会，并合并更高比例的古蔺利润。此外，集团在江油的第三个生产设施的建设将于今年完成。当江油的新生产设施开始运营时，集团的产能将会增加和在非处方药市场获得更大的份额。

鸣谢

我们要对管理层和全体员工在2018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，他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

[1] Selling drugs is no longer a free lunch in China's pharma industry
https://www.businesstimes.com.sg/consumer/selling-drugs-is-no-longer-a-free-lunch-in-chinas-pharma-industry



OPERATIONS & FINANCIAL REVIEW

REVENUE

The Group's FY 2018 revenue decreased by RMB5.4 million or 7.7% from RMB69.7 million in FY 2017 to RMB64.3 million in FY 2018. Revenue from Group's non-prescribed drugs/distribution segment decreased by RMB3.6 million and revenue from prescribed drugs segment decreased by RMB1.8 million.

Gross profit margin increased from 45.1% in FY 2017 to 48.6% in FY 2018 mainly due to higher contributions from higher margin prescribed drugs segment. Other income increased by RMB4.5 million from RMB0.6 million in FY 2017 to RMB5.1 million in FY2018 mainly due to higher government grant, one-off relocation compensation and foreign exchange gain in FY2018.

Selling and distribution costs decreased by RMB1.6 million or 7.3% from RMB21.6 million in FY 2017 to RMB20.0 million in FY 2018 mainly due to lower revenue. Administrative costs decreased by RMB 1.2 million or 11.9% from RMB10.7 million in FY 2017 to RMB9.5 million in FY 2018 mainly due to write-back of allowance for doubtful debts.

Finance income decreased from RMB134,000 in FY 2017 to RMB119,000 in FY 2018, mainly due to lower interest income from cash and cash equivalents. Finance costs remained constant at RMB0.9 million in FY 2018 as compared to FY 2017.

PROFIT

As a result of the above factors, the Group recorded a net profit attributable to shareholders of RMB1.3 million for FY 2018 compared to a loss of RMB2.5 million for FY 2017.

FINANCIAL POSITION

The Group's non-current assets were RMB49.5 million as at 31 December 2018, an increase of RMB3.0 million from RMB46.5 million as at 31 December 2017. This was mainly due to the increase in property, plant and equipment and construction-in-progress.



OPERATIONS & FINANCIAL REVIEW

The Group's current assets were RMB78.8 million as at 31 December 2018, an increase of RMB0.7 million from RMB78.1 million as at 31 December 2017. This was mainly due to higher inventories, other receivables, lower trade receivables, prepaid expenses and cash and cash equivalents. Inventories increased mainly due to higher inventory levels for Er Ding granules.

The Group's current liabilities were RMB28.6 million as at 31 December 2018, a decrease of RMB1.6 million from RMB30.2 million as at 31 December 2017 mainly due to lower accrued liabilities & other payables and higher trade payables and tax payable.

CASH FLOW

The Group's net cash flow from operating activities of RMB3.9 million for the FY 2018 was mainly brought by its operating profit, changes in working capital and interest and income tax paid.

Net cash used in investing activities amounted to RMB4.7 million, incurred mainly for the construction of the Jiangyou facility and purchase of property, plant and machinery.

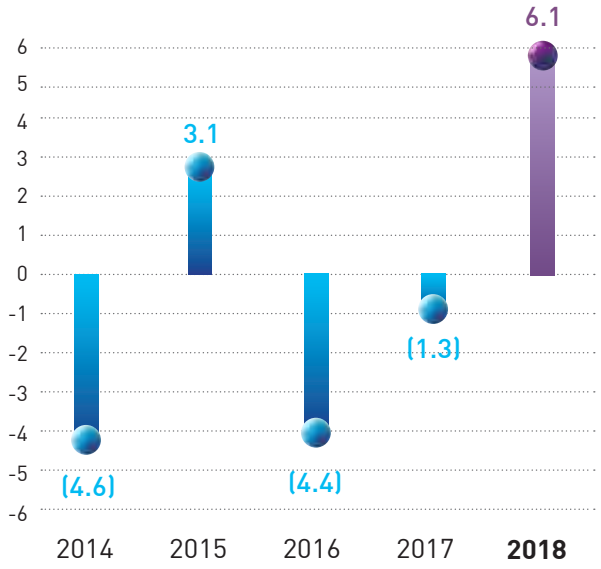
As at the end of 31 December 2018, the Group had a cash and cash equivalents of RMB34.7 million.

SHAREHOLDERS' FUNDS

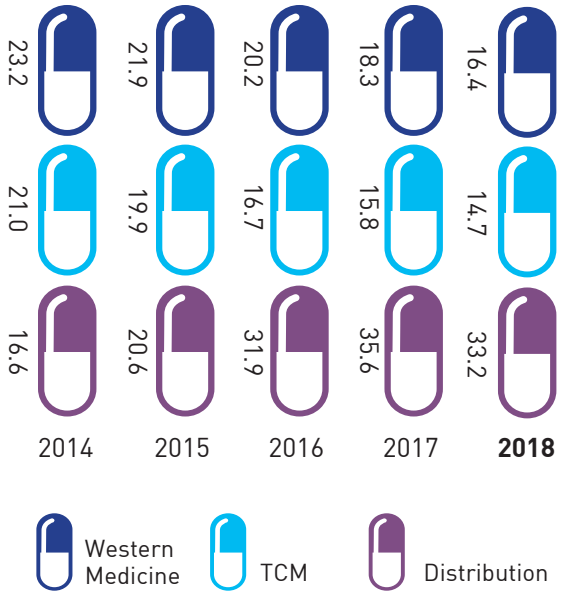
Shareholders' funds amounted to RMB90.3 million as at 31 December 2018. With Group's net profit attributable to equity holders at RMB1.3 million in FY 2018, earnings per share was RMB5.6 cents, compared with net loss per share of RMB10.8 cents in FY 2017. Net asset value per share as at 31 December 2018 was RMB3.92.

FINANCIAL HIGHLIGHTS

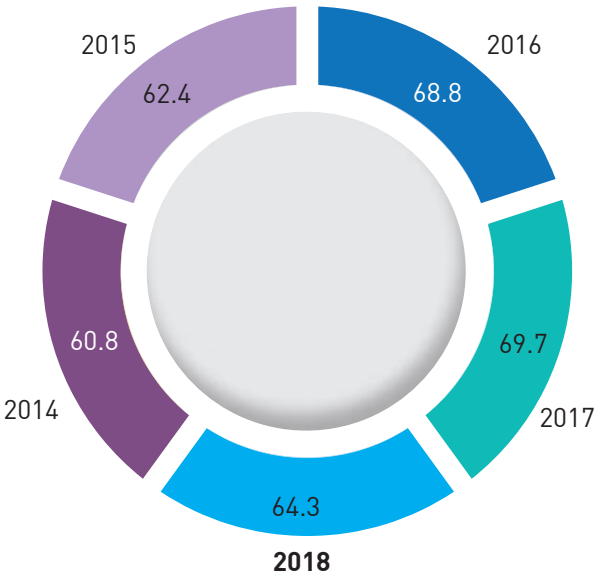
PROFIT/(LOSS) BEFORE TAX
(RMB MILLION)



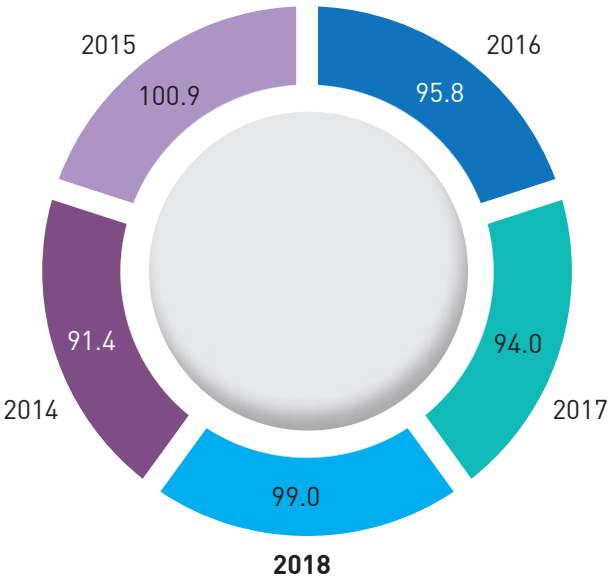
REVENUE BY SECTOR
(RMB MILLION)



REVENUE
(RMB MILLION)



EQUITY
(RMB MILLION)



BOARD OF DIRECTORS



MR. WU XUEDAN
吴学丹

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 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.



MR. QI JIE
祁杰

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 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。



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 currently serves on the Board of various charities. 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。他目前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 project manager 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项目经理。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

JOINT COMPANY SECRETARIES
Lee Pay Lee
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
RHT Corporate Advisory Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619

AUDITORS
Ernst & Young LLP
Public Accountants and Chartered Accountants
One Raffles Quay North Tower Level 18
Singapore 048583
Partner-in-charge: Andrew Tan Chwee Peng
(Appointed since financial year ended 31 December 2014)

PRINCIPAL BANKERS
Agricultural Bank of China
Bank of Chengdu
SPD Bank

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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 and complying with the principles and guidelines set out in the new Code of Corporate Governance 2012 (the "Code") which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited ("SGX-ST")'s Listing Manual. This report outlines the Company's corporate governance practices throughout the financial year with specific reference to the Code issued by the Monetary Authority of Singapore ("MAS") on 02 May 2012.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

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 fulfill 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.

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.

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;

(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.

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 Articles of Association.

CORPORATE GOVERNANCE STATEMENT

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	4	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. Chew Thiam Keng*	4	1	4	1	1	1	1	1
Mr. Chay Kwok Kee^	4	3	4	3	1	–	1	–
Ms. Chung Chia-Jung	4	4	4	4	N.A.	N.A.	N.A.	N.A.

* Retired on 27 April 2018

^ Appointed on 27 April 2018

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 is furnished to the newly appointed director, Mr. Chay Kwok Kee 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.

Principle 2: Board Composition and Guidance

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 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 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.

CORPORATE GOVERNANCE STATEMENT

Mr. Chew Heng Ching ("Mr. Chew HC") was appointed as an Independent Director on 9 November 2005 and has served the Board for more than nine (9) years. The NC has conducted a rigorous review on Mr. Chew HC's independence and together with the Board, considers him to be independent. Mr. Chew HC 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.

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.

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.

Principle 3: Chairman and Chief Executive Officer

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.

Based on the Code, it is recommended that each company appoints an independent director to be the Lead Independent Director where the Chairman and CEO are the same person, the Chairman and CEO are immediate family members, the Chairman is part of the management team and/or the Chairman is not an independent director. As it has been established that the Chairman and CEO do not meet any of these criteria, it has been agreed upon that no Lead Independent Director will be appointed.

CORPORATE GOVERNANCE STATEMENT

Principle 6: 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.

Nominating Committee ("NC")

Principle 4: Board Membership
Principle 5: Board Performance

The 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. Chew Thiam Keng#	Independent Non-Executive Director	(Member)
Mr. Chay Kwok Kee*	Independent Non-Executive Director	(Member)
Mr. Wu Xuedan	CEO and Executive Director	(Member)

\# Retired on 27 April 2018

* Appointed on 27 April 2018

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;

(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;

CORPORATE GOVERNANCE STATEMENT

(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 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
Mr. Chew Heng Ching	Independent Director	9 November 2005	26 April 2017	Chairman of Nominating Committee, Remuneration Committee and Audit Committee	Present:– i) Bonvests Holdings Limited ii) Huan Hsin Holdings Ltd iii) Sinopipe Holdings Limited iv) Spindex Industries Limited v) Ausgroup Limited vi) Stratech Systems Limited Preceding three years:– i) The Stratech Group Limited
Mr. Wu Xuedan	Executive Director	16 April 2004	27 April 2018	Member of Nominating Committee	–
Mr. Qi Jie	Executive Director	31 December 2017	27 April 2018	None	–
Ms. Chung Chia-Jung	Non-Independent Non-Executive Director	15 December 2017	27 April 2018	Member of Audit Committee	–
Mr. Chay Kwok Kee	Independent Director	27 April 2018	–	Member of Nominating Committee, Remuneration Committee and Audit Committee	–

CORPORATE GOVERNANCE STATEMENT

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 Articles of Association, 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. Wu Xuedan and Mr. Chew Heng Ching are due for retirement by rotation under Article 91 and Mr. Chay Kwok Kee who is due for retirement by rotation under Article 97 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 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 guidelines 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 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.

Currently, there is no appointment of alternate director on the Board of the Company.

CORPORATE GOVERNANCE STATEMENT

REMUNERATION MATTERS

Remuneration Committee ("RC")

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure on Remuneration

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

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

\# Retired on 27 April 2018
* Appointed on 27 April 2018

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 2018, 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.

CORPORATE GOVERNANCE STATEMENT

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.

The aggregate amount of the retirement and post-employment benefits to Directors, the CEO and top 5 Key executives (who are not directors or CEO) is approximately S$16,000. Details of the said benefits can be found on page 57 of the Annual Report.

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 2018 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. Chew Thiam Keng#	–	–	–	100	100
Mr. Qi Jie	100	–	–	–	100
Ms. Chung Chia-Jung	–	–	–	100	100
Mr. Chay Kwok Kee^	–	–	–	100	100

\# Retired on 27 April 2018
^ Appointed on 27 April 2018

(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 2018 has been approved by the shareholders at the AGM held on 27 April 2018.

Remuneration of Key Management Personnel

The Company has only one key management personnel (who is not a Director or CEO of the Company) and that is Mr. Liang Chan Hoe, the Financial Controller. 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$250,000.00.

There was no employee of the Group who was an immediate family member of the Director or the CEO and whose remuneration exceeded S$50,000 during the financial year ended 31 December 2018.

CORPORATE GOVERNANCE STATEMENT

The Company does not adopt any Employee Share Scheme.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board is accountable to the shareholders and the management is accountable to the Board. The Board is provided with management accounts and such explanation and information to assess the Group's performance and make informed decisions.

The Company has adopted quarterly results reporting. For its financial reporting, the Company will continue to provide a balanced and understandable assessment of the Group's performance, position and prospects on a quarterly basis.

The Board takes adequate steps to ensure compliance with regulatory requirements.

Principle 11: Risk Management and Internal Controls
Principle 13: Internal Audit

The Company has outsourced the internal audit function to a professional firm. 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.

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 International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors.

The Board has received assurance from the CEO and the Financial Controller to ensure that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and the effectiveness of the Company's risk management and internal control systems are operating effectively in all material respects, based on the criteria for effective internal control established.

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 AC had reviewed and 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, is not aware of any issues causing it believe that the system of internal controls are inadequate and the same was reported to the Board. The Board regularly reviews the effectiveness of all internal controls, including operational controls. The Board with the concurrence of the AC is of the opinion that currently there are adequate internal controls systems in the Company in addressing financial, operational, compliance and information technology controls and risk management systems.

CORPORATE GOVERNANCE STATEMENT

Principle 12: Audit Committee

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

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

\# Retired on 27 April 2018
* Appointed on 27 April 2018

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, the adequacy of the Group's internal controls including financial, operational, compliance and information technology controls, 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.

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 with the AC. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action. 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$207,000, comprising of S$203,000 audit fee and S$4,000 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.

CORPORATE GOVERNANCE STATEMENT

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.

None of the members or the Chairman of the AC are former partners or Directors of the firms acting as the Group's external auditors.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

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.

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, 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.

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.

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 2018 in view of the accumulated losses.

The Company's Articles of Association 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 Articles of Association from time to time and make such amendments to the Articles of Association 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, if available. The Company will be pleased to make these minutes available to shareholders upon their request.

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.

CORPORATE GOVERNANCE STATEMENT

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.

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 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.

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 2018.

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 2018.

USE OF PROCEEDS

The Company received approximately S$1.4 million net proceeds from the issuance of 3,000,000 new ordinary shares at SGD 0.50 per share on 2 October 2015. As at the date of this Report, the Company has not utilised any of the proceeds.

The Company will make periodic announcements on the utilisation of the proceeds raised as and when such proceeds are materially utilised.

DIRECTORS' STATEMENT

The directors are pleased to 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 2018.

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 2018 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 (appointed on 27 April 2018)

In accordance with Articles 91 and 97 of the Company's Articles of Association, Wu Xuedan, Chew Heng Ching 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

Except as described in paragraph five below, 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, Chapter 50, 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 2019.

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 date of appointment if later, or at the end of the financial year.

5. Options

The Company previously had a Pharmesis Share Option Scheme for the granting of non-transferable options that are settled by physical delivery of the ordinary shares of the Company, to eligible employees. The scheme was approved by shareholders at an Extraordinary General Meeting held on 25 August 2004 and has expired in August 2014. The expiration of the share option scheme, however, does not affect the share options which have been granted and accepted. Such outstanding share options remain exercisable until they lapse.

The Remuneration Committee, comprising two directors, Chew Heng Ching and Chew Thiam Keng (retired on 27 April 2018), administered the Pharmesis Share Option Scheme.

On 12 March 2008, the Company granted options to directors and employees of the Group to subscribe for 21,350,000 shares in the Company. These options were exercisable between the period from 12 March 2010 to 11 March 2018 at the exercise price of S$0.125 if the employee remains in service for two years from the date of grant. These share options had expired on 11 March 2018.

Details of outstanding options to subscribe for ordinary shares of the Company pursuant to the Pharmesis Share Option Scheme as at 31 December 2018 are as follows:

Expiry date	Exercise price	Number of options
11 March 2018	S$1.25*	1,020,000*

DIRECTORS' STATEMENT

Details of all the options to subscribe for ordinary shares of the Company granted to directors of the Company pursuant to the Scheme as at 31 December 2018 are as follows:

Name of director	Aggregate options outstanding as at beginning of financial year*	Aggregate options granted since commencement of plan to end of financial year*	Aggregate options expired during financial year*	Aggregate options outstanding as at end of financial year*
Chew Heng Ching	100,000	100,000	(100,000)	–
Qi Jie	145,000	145,000	(145,000)	–
	245,000	245,000	(245,000)	–

* Presented based on share consolidation of every 10 issued ordinary shares into 1 consolidated share which was effective as of 1 September 2015.

Since the commencement of the Pharmesis Share Option Scheme till the end of the financial year:

- No options have been granted to the controlling shareholders of the Company; and
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been 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 (Appointed on 27 April 2018)	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, Chapter 50, 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 reappointment as auditor.

On behalf of the Board of Directors:

Wu Xuedan
Director

Qi Jie
Director

Singapore
29 March 2019

INDEPENDENT AUDITOR'S REPORT

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 2018, 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, Chapter 50 (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 2018 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.

Key audit matters (cont'd)

Impairment assessment of goodwill

As at 31 December 2018, the Group has goodwill of RMB1,323,000 that is attributable to the Sichuan Longlife cash generating unit ("CGU").

Management has performed an annual impairment assessment on this goodwill. Based on their assessment, management has concluded that no impairment loss is required to be recorded against the goodwill.

We considered management's impairment test of this goodwill to be a key audit matter because it involved management's subjective and complex judgments regarding growth rate, expectation of future market developments and economic conditions. Furthermore, significant judgment has been applied by management in determining the applicable discount rate used in the impairment test.

As disclosed in Note 12, the recoverable amount of the CGU has been determined based on value in use calculation.

The value in use calculation uses cash flow projection approved by management and an appropriate discount rate. The cash flow projection included key assumptions of the CGU's future revenue, profitability and related growth expectation. Our audit procedures included, amongst others:

- Checked that the cash flows were based on approved management budget that reflected Sichuan Longlife business plan; and evaluated management's forecasting process by comparing previous forecast to actual result.

- Evaluated the key assumptions used 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 CGU.

- Evaluated the reasonableness of discount rate used to determine present value of the cash flows by considering the key inputs and risks of the cash flow projection, and making comparison to external observable data.

Impairment assessment of trade receivables

The Group's trade receivable balances amounted to RMB19,027,000 and accounts for approximately 15% of the Group's total assets as at 31 December 2018. At that date, the total allowance for expected credit loss ("ECL") and impairment of trade receivables amounted to RMB527,000.

The Group determines ECL and impairment of trade receivables by making debtor-specific assessment of expected impairment loss for long overdue trade receivables using a provision matrix for remaining trade receivables that is based on its historical credit loss experience, adjusted for current and forward-looking information specific to the debtors and economic environment.

We considered management's impairment assessment of trade receivables to be a key audit matter as the assessment of impairment of trade receivables involved significant management's judgments and estimates on trade debtors' ability to pay.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

Key audit matters (cont'd)

Impairment assessment of trade receivables (cont'd)

Our audit procedures included, amongst others:

- Evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers.
- On a sample basis, requested trade receivable confirmations and evidence of receipts from the customers subsequent to the year end.
- Evaluated management's assumptions and inputs used in the computation of historical credit loss rates and reviewed data and information that management has used to make forward-looking adjustments.
- Checked the arithmetic accuracy of management's computation of ECL and impairment recognised.
- Assessed the adequacy of the disclosures on the trade receivables, expected credit losses and the related risks such as credit risk and liquidity risk in Notes 14 and 25.

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.

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.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

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.

- 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.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHARMESIS INTERNATIONAL LTD.

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

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 Andrew Tan Chwee Peng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
29 March 2019

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(In Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Revenue	3	**64,332**	69,727
Cost of sales		**(33,045)**	(38,265)
Gross profit		**31,287**	31,462
Other income		**5,084**	597
Selling and distribution costs		**(20,043)**	(21,616)
Administrative costs		**(9,450)**	(10,732)
Other costs	4	**–**	(257)
Finance income	5	**119**	134
Finance costs	5	**(885)**	(874)
Profit/(Loss) before taxation	6	**6,112**	(1,286)
Income tax expense	7	**(1,053)**	(540)
Profit/(Loss) for the year		**5,059**	(1,826)
Profit/(Loss) attributable to:			
Equity holders of the Company		**1,289**	(2,477)
Non-controlling interest		**3,770**	651
		5,059	(1,826)
Earnings/(Loss) per share (cents)			
Basic and diluted	8	**5.6**	(10.8)

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 2018

(In Renminbi)

	2018 RMB'000	2017 RMB'000
Profit/(Loss) for the year	**5,059**	(1,826)
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**5,059**	(1,826)
Total comprehensive income attributable to:		
Equity holders of the Company	**1,289**	(2,477)
Non-controlling interest	**3,770**	651
	5,059	(1,826)

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(In Renminbi)

	Note	Group			Company		
		31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Non-current assets							
Property, plant and equipment	9	**40,584**	37,302	11,338	**–**	–	3
Land use rights	10	**7,620**	7,892	2,849	**–**	–	–
Investments in subsidiaries	11	**–**	–	–	**54,999**	54,999	54,999
Goodwill on consolidation	12	**1,323**	1,323	1,323	**–**	–	–
		49,527	46,517	15,510	**54,999**	54,999	55,002
Current assets							
Inventories	13	**9,725**	7,239	7,167	**–**	–	–
Trade receivables	14	**19,527**	21,411	20,944	**–**	–	–
Prepaid expenses		**167**	1,374	436	**73**	74	73
Other receivables	15	**14,530**	12,177	34,352	**21**	29	3,895
Tax recoverable		**107**	406	328	**–**	–	–
Cash and cash equivalents	16	**34,715**	35,485	44,857	**3,040**	6,651	6,484
		78,771	78,092	108,084	**3,134**	6,754	10,452
Total assets		**128,298**	124,609	123,594	**58,133**	61,753	65,454
Current liabilities							
Bank borrowings	17	**15,000**	15,000	15,000	**–**	–	–
Trade payables	18	**3,380**	1,907	3,782	**–**	–	–
Other payables and accrued liabilities	19	**9,872**	13,061	8,176	**837**	757	764
Income tax payable		**312**	235	404	**3**	7	11
		28,564	30,203	27,362	**840**	764	775
Net current assets		**50,207**	47,889	80,722	**2,294**	5,990	9,677
Non-current liabilities							
Deferred tax liabilities	20	**757**	488	488	**–**	–	–
Total liabilities		**29,321**	30,691	27,850	**840**	764	775
Net assets		**98,977**	93,918	95,744	**57,293**	60,989	64,679
Equity attributable to equity holders of the Company							
Share capital	21	**83,714**	83,714	83,714	**83,714**	83,714	83,714
Reserves		**6,548**	5,259	7,736	**(26,421)**	(22,725)	(19,035)
		90,262	88,973	91,450	**57,293**	60,989	64,679
Non-controlling interest		**8,715**	4,945	4,294	**–**	–	–
Total equity		**98,977**	93,918	95,744	**57,293**	60,989	64,679

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 2018

(In Renminbi)

	Attributable to equity holders of the Company						
	Share capital RMB'000	Employee share options reserve* RMB'000	Statutory reserve@ RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Group							
Balance as at 1 January 2017 (FRS Framework)	83,714	4,431	11,924	(8,543)	91,526	4,313	95,839
Cumulative effects of adopting SFRS (I) 9	–	–	–	(76)	(76)	(19)	(95)
Balances as at 1 January 2017 (SFRS(I) Framework)	83,714	4,431	11,924	(8,619)	91,450	4,294	95,744
Loss for the year, representing total comprehensive income for the year	–	–	–	(2,477)	(2,477)	651	(1,826)
Balances as at 31 December 2017	83,714	4,431	11,924	(11,096)	88,973	4,945	93,918
Expiry of employee share options	–	(4,431)	–	4,431	–	–	–
Transfer to statutory reserve	–	–	468	(468)	–	–	–
Net profit for the year, representing total comprehensive income for the year	–	–	–	1,289	1,289	3,770	5,059
Balances as at 31 December 2018	**83,714**	**–**	**12,392**	**(5,844)**	**90,262**	**8,715**	**98,977**

* Employee share options reserve represented the equity-settled share options granted to employees (Note 22). The reserve was made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and was reduced by the expiry/forfeiture or exercise of the share options.

@ 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 RMB RMB76,816,480 (2017: RMB76,816,480). 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 2018

(In Renminbi)

	Share capital RMB'000	Employee share options reserve* RMB'000	Accumulated losses RMB'000	Total RMB'000
Company				
Balances as at 1 January 2017	83,714	4,431	(23,466)	64,679
Loss for the year, representing total comprehensive income for the year	–	–	(3,690)	(3,690)
Balances as at 31 December 2017	83,714	4,431	(27,156)	60,989
Expiry of employee share options	–	(4,431)	4,431	–
Loss for the year, representing total comprehensive income for the year	–	–	(3,696)	(3,696)
Balances as at 31 December 2018	**83,714**	**–**	**(26,421)**	**57,293**

* Employee share options reserve represented the equity-settled share options granted to employees (Note 22). The reserve was made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and was reduced by the expiry/forfeiture or exercise of the share options.

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 2018

(In Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit/(Loss) before taxation		**6,112**	(1,286)
Adjustments for:			
Amortisation of land use rights	10	**272**	272
(Write-back of)/impairment loss on financial assets – trade receivables	14	**(985)**	369
Depreciation of property, plant and equipment	9	**1,403**	1,396
Impairment loss on property, plant and equipment	4,9	**–**	257
Write-back of allowance for inventories obsolescence		**(33)**	–
Interest income		**(119)**	(134)
Interest expense		**885**	874
Operating profit before working capital changes		**7,535**	1,748
Changes in working capital:			
Decrease/(increase) in trade receivables		**2,869**	(836)
Increase in inventories		**(2,453)**	(72)
(Increase)/decrease in prepaid expenses and other receivables		**(1,146)**	356
Increase/(decrease) in trade payables		**1,473**	(1,875)
(Decrease)/increase in other payables and accrued liabilities		**(3,189)**	4,885
Cash flows from operations		**5,089**	4,206
Interest received		**119**	134
Interest paid		**(885)**	(874)
Income tax paid		**(408)**	(787)
Net cash flows from operating activities		**3,915**	2,679
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2,554)**	(1,392)
Additional to construction in progress		**(2,183)**	(2,074)
Acquisition of a subsidiary	11	**–**	(8,585)
Proceeds from disposal of property, plant and equipment		**52**	–
Net cash flows used in investing activities		**(4,685)**	(12,051)
Cash flows from financing activities			
Proceeds from bank borrowings		**15,000**	15,000
Repayment of bank borrowings		**(15,000)**	(15,000)
Net cash flows used in financing activities		**–**	–
Net decrease in cash and cash equivalents		**(770)**	(9,372)
Cash and cash equivalents at the beginning of the year	16	**35,485**	44,857
Cash and cash equivalents at the end of the year	16	**34,715**	35,485

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 2018

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)").

For all periods up to and including the year ended 31 December 2017, the Group and the Company prepared its financial statements in accordance with Financial Reporting Standards in Singapore ("FRS"). These financial statements for the year ended 31 December 2018 are the first set of financial statements, the Group has prepared in accordance with SFRS(I). Refer to Note 2.2 for information on how the Group adopted 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 First time adoption of Singapore Financial Reporting Framework (International) ("SFRS(I)")

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

2.2 First time adoption of (SFRS(I)) (cont'd)

New accounting standards effective on 1 January 2018

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. Except for the impact arising from the adoption of SFRS(I) 9 and SFRS(I) 15 described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

SFRS(I) 9 *Financial Instruments*

On 1 January 2018, the Group adopted SFRS(I) 9 Financial instruments, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of SFRS(I) 9 have been applied retrospectively. The impact arising from SFRS(I) 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2017.

Classification and measurement

SFRS(I) 9 requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL"). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2017, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2017.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under SFRS(I) 9. There is no significant impact arising from measurement of these instruments under SFRS(I) 9.

2. Summary of significant accounting policies (cont'd)

2.2 First time adoption of (SFRS(I)) (cont'd)

SFRS(I) 9 *Financial instruments* (cont'd)

Impairment

SFRS(I) 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Upon adoption of SFRS(I) 9, the Group recognised additional impairment of RMB95,000 on the Group's trade receivables.

The additional impairment recognised arising from adoption of SFRS(I) 9 above resulted in a corresponding decrease in retained earnings and non-controlling interest of RMB76,000 and RMB19,000 as at 1 January 2017 respectively.

The reconciliation for loss allowances for the Group are as follows:

	Group Trade receivables RMB'000
Opening loss allowance as at 1 January 2017	1,048
Amount restated through opening retained earnings	95
Adjusted loss allowance	1,143

SFRS(I) 15 *Revenue from Contracts with Customers*

The Group adopted SFRS(I) 15 which is effective for annual periods beginning on or after 1 January 2018.

SFRS(I) 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group applied SFRS(I) 15 retrospectively with no significant changes to the basis of revenue recognition for its prescribed and non-prescribed drugs as the Group's revenue contracts involve single performance obligation (being delivery of goods) with no variable considerations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

2.2 First time adoption of (SFRS(I)) (cont'd)

The following is the reconciliation of the impact arising from the adoption of SFRS(I) 9 on 1 January 2017 to the statement of financial position of the Group.

	1 January 2017 (FRS) RMB'000	SFRS(I) 9 adjustment RMB'000	1 January 2017 (SFRS(I) 9) RMB'000
Statement of financial position			
Trade receivables	21,039	(95)	20,944
Reserves	(7,812)	76	(7,736)
Non-controlling interest	(4,313)	19	(4,294)

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) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined **
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to SFRS(I) 1-28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual Improvements to SFRS(I)s *2015-2017 Cycle*	1 January 2019

** The mandatory effective date of this Amendment had been revised from 1 January 2016 to a date to be determined by the ASC in December 2015 via Amendments to Effective Date of Amendment to SFRS(I) 10 and SFRS(I) 1-28

Except for SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective (cont'd)

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on the statement of financial position to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new leases standard is effective for annual periods beginning on or after 1 January 2019.

The Group has performed a preliminary assessment of the adoption of SFRS(I) 16 and expects to capitalise all existing leases on the required effective date. The Group expects the adoption of SFRS(I) 16 will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

The Group plans to adopt the new standard on the required effective date. The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to SFRS(I) 16 and assessing the possible impact of adoption.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

2.4 Subsidiaries and principles of consolidation (cont'd)

(b) Basis of consolidation (cont'd)

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 FRS.

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 2.9. 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.

2. Summary of significant accounting policies (cont'd)

2.4 Subsidiaries and principles of consolidation (cont'd)

(c) Business combinations and goodwill (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

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.

2.7 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised on a straight-line basis over the lease term of 40 – 50 years.

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.

2. Summary of significant accounting policies (cont'd)

2.8 Intangible assets (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

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.

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.

2. Summary of significant accounting policies (cont'd)

2.10 Financial instruments (cont'd)

(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.

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").

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

2.12 Impairment of financial assets (cont'd)

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.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also 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.

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. Summary of significant accounting policies (cont'd)

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 when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs that it is intended to compensate.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (cont'd)

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.

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. Summary of significant accounting policies (cont'd)

2.19 Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.20 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.

(c) Interest income

Interest income is recognised using the effective interest method.

2.21 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 2018

2. Summary of significant accounting policies (cont'd)

2.21 Taxes (cont'd)

(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.

2. Summary of significant accounting policies (cont'd)

2.21 Taxes (cont'd)

(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.

2.22 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 28, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.23 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.

2.24 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 2018

2. Summary of significant accounting policies (cont'd)

2.25 Significant accounting judgments 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.

Impairment of goodwill

The Group assesses whether there are any indicators of impairment for goodwill 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 goodwill 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 goodwill, are given in Note 12 to the financial statements.

2. Summary of significant accounting policies (cont'd)

2.25 Significant accounting judgments and estimates (cont'd)

Key sources of estimation uncertainty (cont'd)

Provision for expected credit losses 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 2018 is RMB19,027,000 (31 December 2017: RMB15,183,000; 1 January 2017: RMB15,262,000) respectively.

Impairment of property, plant and equipment ("PPE")

As disclosed in Note 9 to the financial statements, the recoverable amounts of the Group's oral liquid production facility are determined based on fair value less costs of disposal calculations. The fair value less costs of disposal calculations are estimated based on the depreciated replacement costs of the PPE. The valuation techniques applied in the determination of the fair value less costs of disposal are disclosed and further explained in Note 9 to the financial statements.

Income taxes

The Group has exposure to income taxes in two jurisdictions, Singapore and the People's Republic of China. Significant judgment 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, income tax payable, and deferred tax liabilities are RMB107,000 (31 December 2017: RMB406,000; 1 January 2017: 328,000), RMB312,000 (31 December 2017: RMB235,000; 1 January 2017: RMB404,000) and RMB757,000 (31 December 2017: RMB488,000; 1 January 2017: RMB488,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

3. Revenue

Disaggregation of revenue

	Western drugs		TCM formulated drugs		Distribution		Group	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Major products								
Western Medicine	**16,247**	18,062	**–**	–	**3,546**	1,853	**19,793**	19,915
Traditional Chinese Medicine	**–**	–	**14,717**	15,798	**29,639**	33,802	**44,356**	49,600
Packaging	**183**	212	**–**	–	**–**	–	**183**	212
	16,430	18,274	**14,717**	15,798	**33,185**	35,655	**64,332**	69,727
Timing of transfer of goods or services								
At a point in time	**16,430**	18,274	**14,717**	15,798	**33,185**	35,655	**64,332**	69,727
Primary geographical market								
People's Republic of China	**16,430**	18,274	**14,717**	15,798	**33,185**	35,655	**64,332**	69,727

4. Other costs

	Group	
	2018 RMB'000	2017 RMB'000
Impairment loss on property, plant and equipment	**–**	257

In 2017, impairment loss on property, plant and equipment related to impairment loss on Chengdu Kinna Pharmaceutical Co., Ltd's oral liquid production facility.

5. Finance income/Finance costs

	Group	
	2018 RMB'000	2017 RMB'000
(i) Finance income		
– Interest income	**119**	134
(ii) Finance costs		
– Interest expense	**(865)**	(873)
– Bank charges	**(20)**	(1)
	(885)	(874)

6. Profit/(Loss) before taxation

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

	Group	
	2018 RMB'000	**2017 RMB'000**
Amortisation of land use rights	**272**	272
Depreciation of property, plant and equipment	**1,403**	1,396
Relocation compensation	**(1,276)**	–
Audit fees paid to auditors of the Company	**417**	392
Audit fees paid to affiliates of auditors of the Company	**580**	550
Non-audit fees paid to auditors of the Company	**28**	28
Personnel expenses*	**26,795**	26,035
(Write-back of)/impairment loss on financial assets – trade receivables	**(985)**	369
Foreign exchange gain	**(109)**	(54)
Government grants	**(3,699)**	(543)
Legal and professional fees	**113**	153
Research and development expenses	**211**	142
Write-back of allowance for inventories obsolescence	**(33)**	–

* Personnel expenses include amounts shown as directors' remunerations and remuneration of key management personnel in Note 24:

	Group	
	2018 RMB'000	**2017 RMB'000**
Wages, salaries and bonuses	**24,615**	24,038
Pension contributions	**1,495**	1,317
Others	**685**	680
	26,795	26,035

Included in personnel expenses are directors' remuneration and directors' fees of RMB1,814,000 and RMB784,000 respectively (2017: RMB1,686,000 and RMB783,000 respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

7. Income tax expense

	Group	
	2018 RMB'000	**2017 RMB'000**
Income tax – current year	**784**	540
Deferred tax – current year	**269**	–
	1,053	540

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:

Profit/(loss) before taxation	**6,112**	(1,286)
Tax at domestic rates applicable to profit/(loss) in the countries where the Group operates	**1,001**	228
Adjustments:		
Non-deductible expenses	**488**	531
Income not subject to tax	**(597)**	–
Deferred tax on undistributed profit of subsidiaries	**269**	–
Deferred tax assets not recognised	**89**	–
Benefit of previously unrecognised deductible temporary differences	**(172)**	(132)
Effect of partial tax exemption and tax relief	**(2)**	(2)
Others	**(23)**	(85)
	1,053	540

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 2020.

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 2018.

At the balance sheet date, the subsidiaries in PRC have tax losses and temporary differences of RMB715,000 and RMB9,620,000 (31 December 2017: RMB189,000 and RMB10,371,000; 1 January 2017: RMB6,400,000 and RMB10,900,000) 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. Earnings/(Loss) per share

Earnings/(loss) per share amounts are calculated by dividing profit/(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 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 profit/(loss) and share data used in the computation of basic and diluted earnings/(loss) per share for the years ended 31 December:

	Group	
	2018 RMB'000	**2017 RMB'000**
Earnings/(loss) for the year attributable to equity holders of the Company used in computation of basic and diluted loss per share	**1,289**	(2,477)

	No. of shares '000	**No. of shares '000**
Weighted average number of ordinary shares for basic earnings per share computation	**23,000**	23,000
Dilutive effect of share options[1]	**–**	–
	23,000	23,000

	Group	
	2018 RMB	**2017 RMB**
	Cents	Cents
Earnings/(loss) per share – basic and diluted	**5.6**	(10.8)

[1] As at 31 December 2018, the Company has no outstanding share options granted to directors and employees (31 December 2017: 1,020,000; 1 January 2017: 1,020,000).

NOTES TO THE FINANCIAL STATEMENTS

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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 2017	26,337	2,968	20,138	5,263	1,650	–	56,356
Additions	–	–	1,198	98	96	2,074	3,466
Arising from acquisition of subsidiary (Note 11)	–	–	–	–	–	24,151	24,151
Balance as at 31 December 2017 and 1 January 2018	26,337	2,968	21,336	5,361	1,746	26,225	83,973
Additions	1,069	–	1,472	–	13	2,183	4,737
Disposals	(224)	–	–	–	(50)	–	(274)
Balance as at 31 December 2018	27,182	2,968	22,808	5,361	1,709	28,408	88,436
Accumulated depreciation and impairment loss:							
Balance as at 1 January 2017	19,011	2,968	17,972	3,552	1,515	–	45,018
Charge for the year	470	–	536	308	82	–	1,396
Impairment loss	127	–	130	–	–	–	257
Balance as at 31 December 2017 and 1 January 2018	19,608	2,968	18,638	3,860	1,597	–	46,671
Charge for the year	422	–	645	282	54	–	1,403
Disposals	(172)	–	–	–	(50)	–	(222)
Balance as at 31 December 2018	19,858	2,968	19,283	4,142	1,601	–	47,852
Net carrying amount:							
Balance as at 31 December 2018	7,324	–	3,525	1,219	108	28,408	40,584
Balance as at 31 December 2017	6,729	–	2,698	1,501	149	26,225	37,302
Balance as at 1 January 2017	7,326	–	2,166	1,711	135	–	11,338

At 31 December 2018, buildings of the Group with carrying amounts of RMB3,885,000 (31 December 2017: RMB4,086,000; 1 January 2017: RMB4,286,000) are pledged as security to secure bank borrowings (Note 17).

9. Property, plant and equipment (cont'd)

	Other equipment RMB'000
Company	
Cost:	
Balance as at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	245
Accumulated depreciation:	
Balance as at 1 January 2017	242
Charge for the year	3
Balance as at 31 December 2017, 1 January 2018 and 31 December 2018	245
Net carrying amount:	
Balance as at 31 December 2018	–
Balance as at 31 December 2017	–
Balance as at 1 January 2017	3

Impairment of asset

In 2017, a subsidiary of the Group, Chengdu Kinna Pharmaceutical Co., Ltd ("Kinna"), carried out a review of the recoverable amount of its oral liquid production facility. An impairment loss of RMB257,000, representing the write-down of this facility to the recoverable amount was recognised in "Other costs" (Note 4) line item of the consolidated income statement for the financial year ended 31 December 2017. The recoverable amount of the production facility was based on its fair value less cost of disposal calculation.

The fair value has been determined by making reference to published fixed asset price index of similar assets to obtain the replacement cost, adjusted for the relevant usage and obsolescence factors of the assets. These adjustments involve unobservable inputs, and management's assumptions on remaining useful life of the assets would cause a change in the fair value. Residual ratio is derived from the estimated useful life of the production facility, i.e. 10 years. Based on historical data, management has assessed that the cost of disposing the production facility is 4% of the net carrying amount of the asset. The fair value derived is categorised under Level 3 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

10. Land use rights

	Group	
	2018 RMB'000	2017 RMB'000
Cost:		
Balance as at 1 January	**9,506**	4,191
Arising from acquisition of a subsidiary (Note 11)	**–**	5,315
Balance as at 31 December	**9,506**	9,506
Accumulated amortisation:		
Balance as at 1 January	**1,614**	1,342
Amortisation for the year	**272**	272
Balance as at 31 December	**1,886**	1,614

	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Net carrying amount	**7,620**	7,892	2,849
Amounts to be amortised:			
– Not later than one year	**272**	272	101
– Later than one year but not later than five years	**1,088**	1,088	404
– Later than five years	**6,260**	6,532	2,344

The Group has land use rights over two plots of state-owned land in the People's Republic of China ("PRC") where the Group's PRC manufacturing and storage facilities reside. The land use rights are not transferable and have remaining tenures of 24.7 and 31.5 years (31 December 2017: 25.7 and 32.5 years; 1 January 2017: 26.7 and 33.5 years). In 2017, the Group acquired a new subsidiary which has land use rights over a plot of state-owned land in the People's Republic of China ("PRC") where the Group's new PRC manufacturing and storage facilities were located. The land use rights are not transferable and have remaining tenures of 42.5 years (31 December 2017: 43.5 years; 1 January 2017: 44.5 years)

As at 31 December 2018, land use rights of the Group with carrying amounts of RMB1,975,000 (31 December 2017: RMB2,056,000; 1 January 2017: RMB2,136,000) are pledged as security to secure bank borrowings (Note 17).

Land use rights amounting to RMB1,975,000 (31 December 2017: 2,056,000; 1 January 2017: RMB2,136,000 have been allocated to the cash generating unit Sichuan Longlife Pharmaceutical Co., Ltd ("Sichuan Longlife") and RMB670,000 (31 December 2017: RMB691,000; 1 January 2017: RMB712,000) to Chengdu Kinna Western Drugs ("Kinna") for impairment testing. The impairment assessment for Sichuan Longlife is disclosed in Note 12.

11. Investments in subsidiaries

	Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Unquoted equity shares, at cost	**50,016**	50,016	50,016
Investment via issuance of share options to employees of subsidiaries	**4,983**	4,983	4,983
	54,999	54,999	54,999

(a) Composition of the Group

	Name (Country of incorporation and place of business)	Principal activities	Proportion (%) of ownership interest		
			31.12.2018 %	31.12.2017 %	1.1.2017 %
	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	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")	**51**	51	51
+	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	100
+	Sichuan Kinna Neautus Chinese Medicine Co., Ltd (四川国嘉荷花中药有限公司) (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

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11. Investment in subsidiaries (cont'd)

(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	Accumulated NCI at the end of reporting period
		%	RMB'000	RMB'000
31 December 2018:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	3,770	8,715
31 December 2017:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	651	4,945
1 January 2017:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	(411)	4,294

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.

11. Investment in subsidiaries (cont'd)

(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		
	31.12.2018 RMB'000	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Current			
Assets	**31,511**	26,770	27,779
Liabilities	**(21,776)**	(23,576)	(25,381)
Net current assets	**9,735**	3,194	2,398
Non-current			
Assets	**10,207**	8,805	8,274
Net non-current assets	**10,207**	8,805	8,274
Net assets	**19,942**	11,999	10,672

Summarised statement of comprehensive income

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2018 RMB'000	**2017 RMB'000**
Revenue	**14,778**	15,902
Profit before taxation	**8,257**	1,635
Income tax expense	**(563)**	(308)
Profit for the year	**7,694**	1,327
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**7,694**	1,327

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. Investment in subsidiaries (cont'd)

(c) Summarised financial information about subsidiary with material NCI (cont'd)

Other summarised information

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2018 RMB'000	**2017 RMB'000**
Net cash flows (used in)/from operating activities	**(8,306)**	2,195
Net cash flows from/(used in) investing activities	**355**	(1,500)
Net cash flows from/(used in) financing activities (Dividends to NCI: nil)	**6,542**	(1,544)
Net decrease in cash and cash equivalents	**(1,409)**	(849)

(d) Acquisition of a subsidiary

In 2017, the Group's subsidiary, Chengdu Kinna Pharmaceutical Co., Ltd acquired the assets and liabilities of Sichuan Kinna Neautus Chinese Medicine Co., Ltd ("Sichuan Kinna"). The fair value of the identifiable assets and liabilities of Sichuan Kinna as at the acquisition date were:

	Fair value at the acquisition date RMB'000
Property, plant and equipment (Note 9)	24,151
Land use rights (Note 10)	5,315
Cash and cash equivalents	46
	29,512
Trade and other payables	(20,881)
Total identifiable net assets at fair value	8,631
Consideration transferred for the acquisition of Sichuan Kinna	
Cash and cash equivalents in subsidiaries acquired	46
Less: Purchase consideration	(8,631)
Net cash outflow on acquisition	(8,585)

12. Goodwill on consolidation

	Group		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Goodwill on consolidation – Sichuan Longlife	**1,323**	1,323	1,323

Goodwill acquired through business combinations has been allocated to the cash-generating units ("CGU") Sichuan Longlife Pharmaceutical Co., Ltd ("Sichuan Longlife") for impairment testing. The recoverable amounts on Sichuan Longlife are determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

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

	Sichuan Longlife		
	31.12.2018	31.12.2017	1.1.2017
Growth rates	**3%**	3%	3%
Pre-tax discount rates	**15.7%**	15.7%	15.7%

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 past 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 CGUs.

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 takes into account 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 value of Sichuan Longlife to materially exceed its recoverable amount.

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13. Inventories

	Group		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Statement of financial position:			
Raw materials	**4,057**	3,904	2,975
Work in progress	**1,777**	2,063	2,799
Finished goods	**3,891**	1,272	1,393
	9,725	7,239	7,167

	2018 RMB'000	2017 RMB'000
Income statement:		
Inventories recognised as an expense in cost of sales	26,475	27,935
Write-back of allowance for inventories obsolescence	(33)	–

14. Trade receivables

	Group		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Trade receivables	**19,554**	16,695	16,405
Less: Allowance impairment	**(527)**	(1,512)	(1,143)
	19,027	15,183	15,262
Note receivables	**500**	6,228	5,682
	19,527	21,411	20,944

Trade receivables and note 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.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RMB2,637,000 (31 December 2017: RMB2,719,000; 1 January 2017: RMB2,231,000) that are past due at the end of the reporting period but not impaired.

The Group's trade receivables consisted of sales predominantly from prescribed drugs. Certain receivables from the sales of the prescribed drugs are covered by social insurance and are included in the list of medicine approved by the Social Insurance Bureau in PRC. A longer period is required for the settlement of trade receivables as the payment process is dependent on receipts of the appointed distribution agents from the hospitals and clinics, which are in-turn dependent on the settlement of medical bills out of the patients' medical fund.

14. Trade receivables (Continued)

Receivables that are past due but not impaired (Continued)

These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group		
	31.12.2018 RMB'000	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Trade receivables past due:			
60 days and less	**571**	796	1,225
61 – 120 days	**482**	741	464
121 – 180 days	**560**	450	284
More than 181 days	**1,024**	732	258
	2,637	2,719	2,231

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Collectively impaired		Individually impaired	
	31.12.2017 RMB'000	**1.1.2017 RMB'000**	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Group				
Trade receivables – nominal amounts	1,512	1,143	–	–
Less: Allowance for impairment	(1,512)	(1,143)	–	–
	–	–	–	–

	Collectively impaired 2017 RMB'000	**Individually impaired 2017 RMB'000**
Group		
Balance as at 1 January	1,143	–
Charge for the year	369	–
Balance as at 31 December	1,512	–

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments.

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14. Trade receivables (Continued)

Expected credit losses

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

	Group 2018 RMB'000
Movement in allowance accounts:	
Balance as at 1 January	**1,512**
Write-back for the year	**(985)**
Balance as at 31 December	**527**

15. Other receivables

	Group			Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Other receivables – nominal amounts	**14,590**	12,237	34,412	**21**	29	3,895
Less: Allowance for impairment	**(60)**	(60)	(60)	**–**	–	–
	14,530	12,177	34,352	**21**	29	3,895

Analysis of allowance for impairment is as follows:

	Group			Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Balance as at 1 January and 31 December	**60**	60	60	**–**	–	–

As at 31 December 2018, other receivables include an advance payment of RMB6,973,000 (31 December 2017: RMB6,973,000; 1 January 2017: 6,973,000) to Chengdu Kinna Investment Co., Ltd. for the acquisition of two properties and refundable deposit of RMB2,355,000 (31 December 2017: Nil; 1 January 2017: Nil) for the acquisition of 30% equity interests in Sizhuan Longlife Pharmaceutical Co., Ltd (Note 29).

Included in the other receivables of the Group and the Company is an amount of RMB29,000 (31 December 2017: RMB29,000; 1 January 2017: RMB29,000) which is denominated in Singapore dollar.

16. Cash and cash equivalents

	Group			Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Cash at banks and on hand	**32,588**	30,538	40,014	**913**	1,704	1,641
Short-term deposits	**2,127**	4,947	4,843	**2,127**	4,947	4,843
Cash and cash equivalents	**34,715**	35,485	44,857	**3,040**	6,651	6,484

Cash at banks earns interest at floating rates based on daily bank deposit rates ranging from 0.1% to 0.2% (31 December 2017: 0.1% to 0.2%; 1 January 2017: 0.1% to 0.4%) per annum. The short-term deposit revolves on a monthly basis, and earns interests at the short-term deposit rate. The effective interest rate as at 31 December 2018 was 0.95% (31 December 2017: 0.95%; 1 January 2017: 0.95%) 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		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Singapore dollar	**2,389**	5,007	4,697
United States dollar	**142**	134	143

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17. Bank borrowings

	Maturity	Group 31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Current:				
Fixed rate RMB bank loan	10 January 2019	**10,000**	–	–
Fixed rate RMB bank loan	15 March 2019	**5,000**	–	–
Fixed rate RMB bank loan	10 January 2018	**–**	10,000	–
Fixed rate RMB bank loan	15 March 2018	**–**	5,000	–
Fixed rate RMB bank loan	10 January 2017	**–**	–	10,000
Fixed rate RMB bank loan	15 March 2017	**–**	–	5,000
		15,000	15,000	15,000

The effective interest rate for the RMB bank loans ranges from 5.0% to 6.0% (31 December 2017: 5.0% to 6.0%; 1 January 2017: 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 land use rights of a subsidiary (Note 10).

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
2018				
Bank borrowings	**15,000**	**15,000**	**(15,000)**	**15,000**
2017				
Bank borrowings	15,000	15,000	(15,000)	15,000

18. Trade payables

	Group 31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Trade payables			
– 3rd party	**3,380**	1,907	2,438
– Related party	**–**	–	1,344
	3,380	1,907	3,782

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

19. Other payables and accrued liabilities

	Group			Company		
	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000	1.1.2017 RMB'000
Other payables	**8,178**	9,851	5,043	**12**	12	65
Accruals	**894**	1,409	1,169	**825**	745	699
VAT payable	**634**	875	1,374	**–**	–	–
Advances from customers	**166**	926	590	**–**	–	–
	9,872	13,061	8,176	**837**	757	764

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 RMB837,000 (31 December 2017: RMB757,000; 1 January 2017: RMB764,000) which is denominated in Singapore dollar.

20. Deferred tax liabilities

Deferred tax liabilities relate mainly to withholding tax accrued on distributable profits of the Group's subsidiaries under the new China tax regime whereby remittance of distributable profits out of China will attract a 10% withholding tax with effect from 1 January 2008.

At the statement of financial position date, RMB757,000 (31 December 2017: RMB488,000; 1 January 2017: RMB488,000) has been recognised for taxes that would be payable on the undistributed profits of the Group's subsidiaries.

21. Share capital

	Group and Company			
	2018		2017	
	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.

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22. Employee benefits

Under the previous Pharmesis Share Option Scheme (the "ESOS") which has expired as of August 2014, share options were granted to directors, executives and employees of the Group. The expiration of the share option scheme, however, does not affect the share options which have been granted and accepted. Such outstanding share options remain exercisable until they lapse. The exercise price of the options is equal to the market price of the shares on the date of grant. The option vesting period is two years from the date of grant. The option may be exercisable for the period from 12 March 2010 to 11 March 2018. The option had expired on 11 March 2018.

Movement of share options during the financial year

The following is the movement in share options during the financial year:

	2018 Number of share options	2017 Number of share options
Outstanding as at 1 January	**1,020,000**	1,020,000
Expired during the year	**(1,020,000)**	–
Outstanding and exercisable at 31 December	**–**	1,020,000

Fair value of share options

The fair value of services rendered in return for share options granted are measured by reference to the fair value of share options granted under the ESOS. The estimate of the fair value of the services received is measured based on a Trinomial Options Pricing model, taking into account the terms and conditions upon which the share options were granted. The following table states the inputs to the model used.

		12.3.2008 grant
Expected volatility	(%)	71
Risk-free interest rate	(%)	1.5
Expected life of options	(years)	6.7
Exercise price	(S$)	1.25
Share price at date of grant	(S$)	0.14

The weighted average fair value of options granted was RMB nil (31 December 2017: RMB0.43; 1 January 2017: RMB0.43).

The fair value of options granted charged to the income statement during the financial year was RMB nil (2017: RMB nil). The expected volatility reflects the assumptions that the historical volatility of companies in the similar industry is indicative of future trends, which may not necessarily be the actual outcome.

All outstanding options have vested since financial year ended 31 December 2010.

23. Operating lease commitments

The Group and Company had entered into commercial leases for its land, office and warehouse premises in Singapore and the PRC. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 11 years. Operating lease payments recognised in the consolidated income statement during the financial year amounted to RMB474,000 (2017: RMB428,000).

Future minimum lease payments under non-cancellable operating leases at the end of the reporting period are as follows:

	Group			Company		
	31.12.2018 RMB'000	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**	**31.12.2018 RMB'000**	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Within one year	**438**	438	286	**73**	73	28
In the second to fifth year	**696**	924	952	**54**	127	–
More than five years	**485**	587	689	**–**	–	–
	1,619	1,949	1,927	**127**	200	28

24. Related party disclosures

(a) Compensation of key management personnel

	Group	
	2018 RMB'000	**2017 RMB'000**
Short-term employee benefits	3,636	3,477
Central Provident Fund contributions	77	68
	3,713	3,545
Comprise amounts paid to:		
Directors of the Company		
– Directors' remuneration	1,814	1,686
– Directors' fees	784	783
Other key management personnel	1,115	1,076
	3,713	3,545

(b) Directors' interests in employee share option plan

At the statement of financial position date, the total number of outstanding share options granted by the Company to the directors under the ESOS amounted to nil (31 December 2017: 345,000; 1 January 2017: 200,000).

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24. Related party disclosures (cont'd)

(c) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

		Group	
	Note	2018 RMB'000	2017 RMB'000
Companies related to directors			
– Rendering of services	(i)	–	212
– Purchase of raw materials	(ii)	–	(10,954)
– Rental expense	(iii)	–	(120)

Companies related to directors:

(i) In 2017, the Group had entered into a contract with Ningxia Cai Qi Biological Technology Co., Ltd ("Ningxia"), a company in which a former director of the Company, has 85% equity interest. The scope of the contract is for the Group to render the service of processing and packaging oral liquid products to Ningxia. No balance was outstanding as at 31 December 2017.

Ningxia ceased to be a related party of the Group as at 15 December 2017 after the resignation of a director of the Company on the same date.

(ii) In 2017, the Group had entered into a contract with Sichuan Neautus Traditional Chinese Medicine Co., Ltd ("Sichuan Neautus"), a company in which a former director of the Company, has 29.8% equity interest. The scope of the contract is for the Group to purchase raw materials from Sichuan Neautus during the year. No balance was outstanding as at 31 December 2017.

(iii) The Group has made rental payments to Sichuan Neautus in 2017.

Sichuan Neautus ceased to be a related party of the Group as at 31 December 2017 after the resignation of a director of the Company on the same date.

25. 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.

There have 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/increase the Group's profit/(loss) before taxation by RMB164,000 (31 December 2017: RMB433,000; 1 January 2017: RMB403,000). 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 short-term deposits), 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 120 days when they fall due, which are derived based on the Group's historical information.

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25. Financial risk management objectives and policies (cont'd)

(ii) Credit risk (cont'd)

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.

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

25. Financial risk management objectives and policies (cont'd)

(ii) Credit risk (cont'd)

Trade receivables

The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates. The loss allowance provision as at 31 December 2018 is disclosed in Note 14, the expected credit losses also incorporate forward looking information such as industry default rates.

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

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:

- 54% (31 December 2017: 60%; 1 January 2017: 53%) 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 short-term deposits 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.

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25. Financial risk management objectives and policies (cont'd)

(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.

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.

	1 year or less		
	31.12.2018 RMB'000	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Group			
Financial assets			
Trade receivables	**19,527**	21,411	20,944
Other receivables	**14,530**	12,177	34,352
Cash and cash equivalents	**34,715**	35,485	44,857
Total undiscounted financial assets	**68,772**	69,073	100,153
Financial liabilities			
Bank borrowings	**15,073**	15,073	15,073
Trade and other payables and accrued liabilities (excluding VAT payable and advances from customers)	**12,452**	13,167	9,994
Total undiscounted financial liabilities	**27,523**	28,240	25,067
Total net undiscounted financial assets	**41,249**	40,833	75,086

	1 year or less		
	31.12.2018 RMB'000	**31.12.2017 RMB'000**	**1.1.2017 RMB'000**
Company			
Financial assets			
Other receivables	**21**	29	3,895
Cash and cash equivalents	**3,040**	6,651	6,484
Total undiscounted financial assets	**3,061**	6,680	10,379
Financial liabilities			
Other payables and accrued liabilities	**837**	757	764
Total undiscounted financial liabilities	**837**	757	764
Total net undiscounted financial assets	**2,224**	5,923	9,615

26. Financial instruments

(a) Classification of financial instruments

	31.12.2018 SFRS(I) 9		31.12.2017 FRS 39		1.1.2017 FRS 39	
Group	**Debts instruments at amortised cost $**	**Financial liabilities at amortised cost $**	**Loans and receivables at amortised cost $**	**Financial liabilities at amortised cost $**	**Loans and receivables at amortised cost $**	**Financial liabilities at amortised cost $**
Financial assets						
Trade and other receivables	**19,527**	**–**	21,411	–	20,944	–
Other receivables	**14,530**	**–**	12,177	–	34,352	–
Cash and cash equivalents	**34,715**	**–**	35,485	–	44,857	–
Financial liabilities						
Bank borrowings	**–**	**15,000**	–	15,000	–	15,000
Trade and other payables and accrued liabilities (excluding VAT payable, and advances from customers)	**–**	**12,452**	–	13,167	–	9,994
	68,772	**27,452**	69,073	28,167	100,153	24,994

	31.12.2018 SFRS(I) 9		31.12.2017 FRS 39		1.1.2017 FRS 39	
Company	**Debts instruments at amortised cost $**	**Financial liabilities at amortised cost $**	**Loans and receivables at amortised cost $**	**Financial liabilities at amortised cost $**	**Loans and receivables at amortised cost $**	**Financial liabilities at amortised cost $**
Financial assets						
Other receivables	**21**	**–**	29	–	3,895	–
Cash and cash equivalents	**3,040**	**–**	6,651	–	6,484	–
Financial liabilities						
Other payables and accrued liabilities	**–**	**837**	–	757	–	764
	3,061	**837**	6,680	757	10,379	764

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

26. Financial instruments (cont'd)

(b) 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) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

Description	Fair value hierarchy	Valuation technique	Unobservable inputs
Property, plant and equipment			
– Oral liquid production facility	Level 3	Depreciated replacement cost	Residual ratio

A significant increase (decrease) in residual ratio would result in a significantly lower (higher) fair value measurement.

(iii) Assets and liabilities that are not carried at fair value whose carrying amounts approximate fair values

Trade receivables (Note 14), other receivables (Note 15), cash and cash equivalents (Note 16), bank borrowing (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.

27. 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 2018 and 2017.

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 2018 and 2017.

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, interest-bearing loans (if any) less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company less the abovementioned restricted statutory reserve fund.

As at 31 December 2018, the Group's gearing ratio is zero (2017: zero) as the Group's cash and cash equivalents exceed its outstanding borrowings.

28. Segment information

	Western drugs		TCM formulated drugs		Distribution		Eliminations		Group	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue										
External sales	**16,430**	18,274	**14,716**	15,798	**33,186**	35,655	**–**	–	**64,332**	69,727
Inter segment sales	**3,132**	1,447	**29,960**	29,587	**–**	–	**(33,092)**	(31,034)	**–**	–
Total revenue	**19,562**	19,721	**44,676**	45,385	**33,186**	35,655	**(33,092)**	(31,034)	**64,332**	69,727
Result										
Segment result	**1,674**	57	**8,813**	2,259	**88**	827			**10,575**	3,143
Unallocated corporate expenses									**(3,697)**	(3,689)
Profit/(loss) from operations									**6,878**	(546)
Finance income	**85**	91	**6**	3	**28**	40			**119**	134
Finance costs	**(6)**	–	**(877)**	(873)	**(2)**	(1)			**(885)**	(874)
Income tax expense	**(221)**	–	**(832)**	(308)	**–**	(232)			**(1,053)**	(540)
Profit/(loss) before non-controlling interest									**5,059**	(1,826)
Non-controlling interest									**(3,770)**	(651)
Net profit/(loss)									**1,289**	(2,477)
Assets and liabilities										
Segment assets	**47,680**	46,686	**68,696**	65,419	**8,788**	5,767			**125,164**	117,872
Unallocated corporate assets									**3,134**	6,737
Total assets									**128,298**	124,609
Segment liabilities	**5,187**	3,762	**22,887**	24,721	**407**	1,365			**28,481**	29,848
Unallocated corporate liabilities									**840**	843
Total liabilities									**29,321**	30,691
Other segment information										
Capital expenditure (Note A)	**362**	199	**4,370**	3,239	**5**	28			**4,737**	3,466
Depreciation and amortisation	**763**	845	**902**	806	**10**	17			**1,675**	1,668
Interest income	**(85)**	(91)	**(6)**	(3)	**(28)**	(40)			**(119)**	(134)
Interest expense	**6**	–	**877**	873	**2**	1			**885**	874
(Write-back of)/impairment loss on financial assets – Trade receivables	**(235)**	253	**(385)**	31	**(365)**	85			**(985)**	369
Write-back of allowance for inventories obsolescence	**(33)**	–	**–**	–	**–**	–			**(33)**	–
Impairment loss on property, plant and equipment	**–**	257	**–**	–	**–**	–			**–**	257

28. Segment information (cont'd)

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.

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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Customer A	**4,969**	4,631	**–**	–	**–**	–
Customer B	**3,672**	4,541	**–**	–	**–**	–
Customer C	**–**	–	**1,997**	2,024	**–**	–
Customer D	**–**	–	**1,040**	1,943	**–**	–
Customer E	**–**	–	**–**	–	**5,091**	5,308
Customer F	**–**	–	**–**	–	**4,445**	4,899
	8,641	9,172	**3,037**	3,967	**9,536**	10,207

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

29. Event occurring after the reporting period

On 31 December 2018, a wholly-owned subsidiary of the Company, Chengdu Kinna Pharmaceutical Co., Ltd entered into a conditional sale and purchase agreement to acquire additional 30% equity interest in Sizhuan Longlife Pharmaceutical Co., Ltd for a cash consideration of RMB15,700,000.

The proposed acquisition is conditional and subject to the approvals from shareholders of the Company and relevant authorities in China.

30. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 29 March 2019.

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2019

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	2	0.22	22	0.00
100 - 1,000	398	43.93	247,700	1.08
1,001 - 10,000	427	47.13	1,458,170	6.34
10,001 - 1,000,000	74	8.17	4,514,728	19.63
1,000,001 AND ABOVE	5	0.55	16,779,380	72.95
TOTAL	**906**	**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	1,494,380	6.50
6	RAFFLES NOMINEES (PTE.) LIMITED	686,320	2.98
7	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	522,368	2.27
8	WANG JIA	313,410	1.36
9	OCBC SECURITIES PRIVATE LIMITED	274,500	1.19
10	LONG BIAO	251,200	1.09
11	PHILLIP SECURITIES PTE LTD	176,200	0.77
12	ZHAO JIE	157,100	0.68
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	WAN ZUOFENG	95,100	0.41
17	LEE CHAY GIAM JOEL	72,650	0.32
18	CHEN BEI	71,400	0.31
19	DBS NOMINEES (PRIVATE) LIMITED	66,000	0.29
20	THE WING ON INVESTMENT COMPANY (S) PTE LTD	60,000	0.26
	TOTAL	**19,893,728**	**86.49**

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2019

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 15 March 2019.

	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
CDH Water Limited[5]	–	–	4,770,000	20.74
CDH IV Holdings Company Limited[6]	–	–	4,770,000	20.74
China Diamond Holdings Company Limited[7]	–	–	4,770,000	20.74
Wu Shangzhi[8]	–	–	4,770,000	20.74
Jiao Shuge[9]	–	–	4,770,000	20.74
Wang Shu[10]	–	–	3,000,000	13.04
Liu Bing[11]	–	–	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. CDH Water Limited holds not less than 20% of the entire issued share capital of Suntar Investment Pte. Ltd., is deemed to be interested in shares held by Suntar Investment Pte. Ltd.

6. CDH IV Holdings Company Limited acting as the general partner of CDH Fund IV, L.P, hold the entire issued share capital of CDH Water Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.

7. China Diamond Holdings Company Limited acting as the general partner of China Diamond Holdings IV L.P. holds 80% of the issued share capital of CDH IV Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2019

8. Dr Wu Shangzhi holds the entire issued share capital of West Oak Company Limited and Forrest Circle Limited, therefore indirectly interested in the shares held by West Oak Company Limited and Forrest Circle Limited in China Diamond Holdings Company Limited. Collectively, West Oak Company Limited and Forrest Circle Limited, and in turn Dr Wu Shangzhi, hold 33.20% of the issued share capital of China Diamond Holdings Company Limited. Dr Wu Shangzhi holds more than 20% of the issued share capital of China Diamond Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.

9. Mr Jiao Shuge holds the entire issued share capital of Active Star Capital Limited and therefore indirectly interested in the shares held by Active Star Capital Limited in China Diamond Holdings Company Limited. The trustee of Orange Bloom Limited, DBS Bank, acts in accordance with the directions of Mr Jiao Shuge in relation to Orange Bloom Limited therefore Mr Jiao Shuge is regarded as an associate of Orange Bloom Limited. Collectively, Active Star Capital Limited and Orange Bloom Limited, and in turn Mr Jiao Shuge, holds 28.78% of the issued share capital of China Diamond Holdings Company Limited. Mr Jiao Shuge holds more than 20% of the issued share capital of China Diamond Holdings Company Limited and therefore is deemed to be interested in the shares held by Suntar Investment Pte. Ltd.

10. 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).

11. 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 15 March 2019, 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 15th Annual General Meeting (the "AGM") of Pharmesis International Ltd. (the "Company") will be held at No. 5 Kallang Sector, #03-02, Singapore 349279 on Friday, 26 April 2019 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 2018 together with the Auditors' Report thereon. **(Resolution 1)**

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

   Mr Wu Xuedan **(Resolution 2)**
   [See Explanatory Note (i)]

   (Mr Wu Xuedan will, upon re-election as a Director of the Company, remain as a member of the Nominating Committee.)

   Mr Chew Heng Ching
   (Resolution 3)
   [See Explanatory Note (i)]

   (Mr Chew Heng Ching will, upon re-election as a Director of the Company, remain as the Chairman of the Audit, Nominating and Remuneration Committees. He is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.)

3. To re-elect Mr Chay Kwok Kee, a Director retiring pursuant to Article 97 of the Company's Articles of Association.
   (Resolution 4)
   [See Explanatory Note (i)]

   (Mr Chay Kwok Kee will, upon re-election as a Director of the Company, remain as the member of the Audit, Nominating and Remuneration Committees. He is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited)

4. To approve the payment of Directors' fees of SGD 148,000 for the financial year ending 31 December 2019 to be paid quarterly in advance.
   (Resolution 5)

5. To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

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

NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

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

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

"That, pursuant to Section 161 of the Companies Act, Cap. 50 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

(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;

NOTICE OF ANNUAL GENERAL MEETING

(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 Articles of Association 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 7)
[See Explanatory Note (ii)]

By Order of the Board

Lee Pay Lee
Company Secretary

Singapore, 11 April 2019

Explanatory Notes:

(i) The detailed information of Mr Wu Xuedan, Mr Chew Heng Ching and Mr Chay Kwok Kee can be found under the section entitled "Board of Directors" and pages 12 to 14 of the Annual Report.

Mr Wu Xuedan is the Executive Director and Chief Executive Officer of the Company. Mr Wu Xuedan has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

Mr Chew Heng Ching has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

Mr Chay Kwok Kee has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

(ii) **Ordinary Resolution 7** proposed in item 7 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.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

2. Where a member (other than a Relevant Intermediary) appoints two (2) proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies.

3. 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).

   "Relevant Intermediary" means:

   a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

   b) a person holding a capital markets services licence to provide custodial services for securities under the Securities Futures Act (Cap. 289) and who holds shares in that capacity; or

   c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the AGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies 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 a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other 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 (Chapter 50) of Singapore.

8. An investor who holds shares under The Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his/her vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

NOTICE OF ANNUAL GENERAL MEETING

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 a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, 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.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

The following additional information on Mr Wu Xuedan, Mr Chew Heng Ching 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 pages 12 to 14.

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
Date of Appointment	16 April 2004	9 November 2005	27 April 2018
Date of last re-appointment	27 April 2018	26 April 2017	Not Applicable
Age	57	68	66
Country of principal residence	People's Republic of China	Singapore	Singapore
The Board's comments on this re-appointment	The re-election of Mr Wu Xuedan as the Executive Director and Chief Executive Officer ("**CEO**") of the Company was recommended by the Nominating Committee ("**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 Executive Director and CEO of the Company.	The re-election of Mr Chew Heng Ching as the Independent Non-Executive Chairman 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 Chairman 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	Executive Responsible for the stewardship and guidance of the Group in its developments and future plans. Mr Wu also oversees the overall management and operations of the Group as well as supervises the research and development activities.	Non-Executive	Non-Executive

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Chief Executive Officer and Executive Director, NC member	Independent Non-Executive Chairman, Chairman of the Audit Committee, NC and Remuneration 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	No
Conflict of interests (including any competing business)	No	No	No
Working experience and occupation(s) during the past 10 years	2004 to Present Executive Director and CEO of Pharmesis International Ltd.	1995 To Present Listed companies 1) Bonvests Holdings Limited 2) Stratech Systems Limited 3) Huan Hsin Holdings Ltd 4) Sinopipe Holdings Limited 5) Spindex Industries Limited 6) Ausgroup Limited 2015 to 2018 Listed Company The Stratech Group Limited 1999 to 2015 Listed Company Chosen Holdings Limited	May 2012 to November 2018 Noel Gifts China Representative 1990 to Present:– Independent Investor and Business Consultant

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
Undertaking has been submitted to the listed issuer in the form of Appendix 7.7 under Rule 720(1)	Yes	Yes	Yes
Shareholding interest in the listed issuer and its subsidiaries	Nil	Nil	Nil
Other Principal Commitments Including Directorships: Past (for the last 5 years)	Nil	1) The Stratech Group Limited 2) Chosen Holdings Limited	Nil
Present	Directorships: 1) Chengdu Kinna Pharmaceutical Co., Ltd. 2) Sichuan Longlife Pharmaceutical Co., Ltd 3) Chengdu Pharmesis Pharmaceutical Co., Ltd. 4) Top Entrepreneur Limited 5) Sichuan Kinna Neautus Chinese Medicine Co., Ltd	Directorships: 1) Bonvests Holdings Limited 2) Stratech Systems Limited 3) Huan Hsin Holdings Ltd 4) Sinopipe Holdings Limited 5) Spindex Industries Limited 6) Ausgroup Limited	Directorship: Nil
Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is "yes", full details must be given.			

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
(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	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	No
(c) Whether there is any unsatisfied judgment against him?			
	No	No	No
(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	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	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	No
(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	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	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	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
(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 (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?	No	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR WU XUEDAN	MR CHEW HENG CHING	MR CHAY KWOK KEE
(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	No

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Pharmesis International Ltd.

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

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 11 April 2019.

IMPORTANT:

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM
Annual General Meeting

(Please read notes overleaf before completing this form.)

I/We* _____ (Name) _____ (NRIC/Passport No.)

_____ (Address)

being a member/members* of Pharmesis International Ltd. (the "**Company**") hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "**Meeting**") to be held at 5 Kallang Sector, #03-02, Singapore 349279, on 26 April 2019 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for/against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

No.	**ORDINARY BUSINESS**	**No. of votes *For**	**No. of votes *Against**
1.	To receive and adopt the Statements by Directors and Audited Financial Statements for the financial year ended 31 December 2018		
2.	To re-elect Mr Wu Xuedan, who is retiring under Article 91 of the Company's Articles of Association		
3.	To re-elect Mr Chew Heng Ching, who is retiring under Article 91 of the Company's Articles of Association		
4.	To re-elect Mr Chay Kwok Kee, who is retiring under Article 97 of the Company's Articles of Association		
5.	To approve payment of Directors' Fees		
6.	To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration		
	SPECIAL BUSINESS		
7.	To authorise the Directors to allot and issue new shares		

* Please indicate your- vote "For" or "Against", tick [√] within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2019

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

_____

Signature of Shareholder(s)
or 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. A member of the Company (other than a Relevant Intermediary), entitled to attend and vote at a meeting of the Company is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A Relevant Intermediary may appoint more than 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).

   "Relevant Intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the AGM.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies 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 a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other 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 (Chapter 50) of Singapore.

9. An investor who holds shares under The Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his/her vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

General:

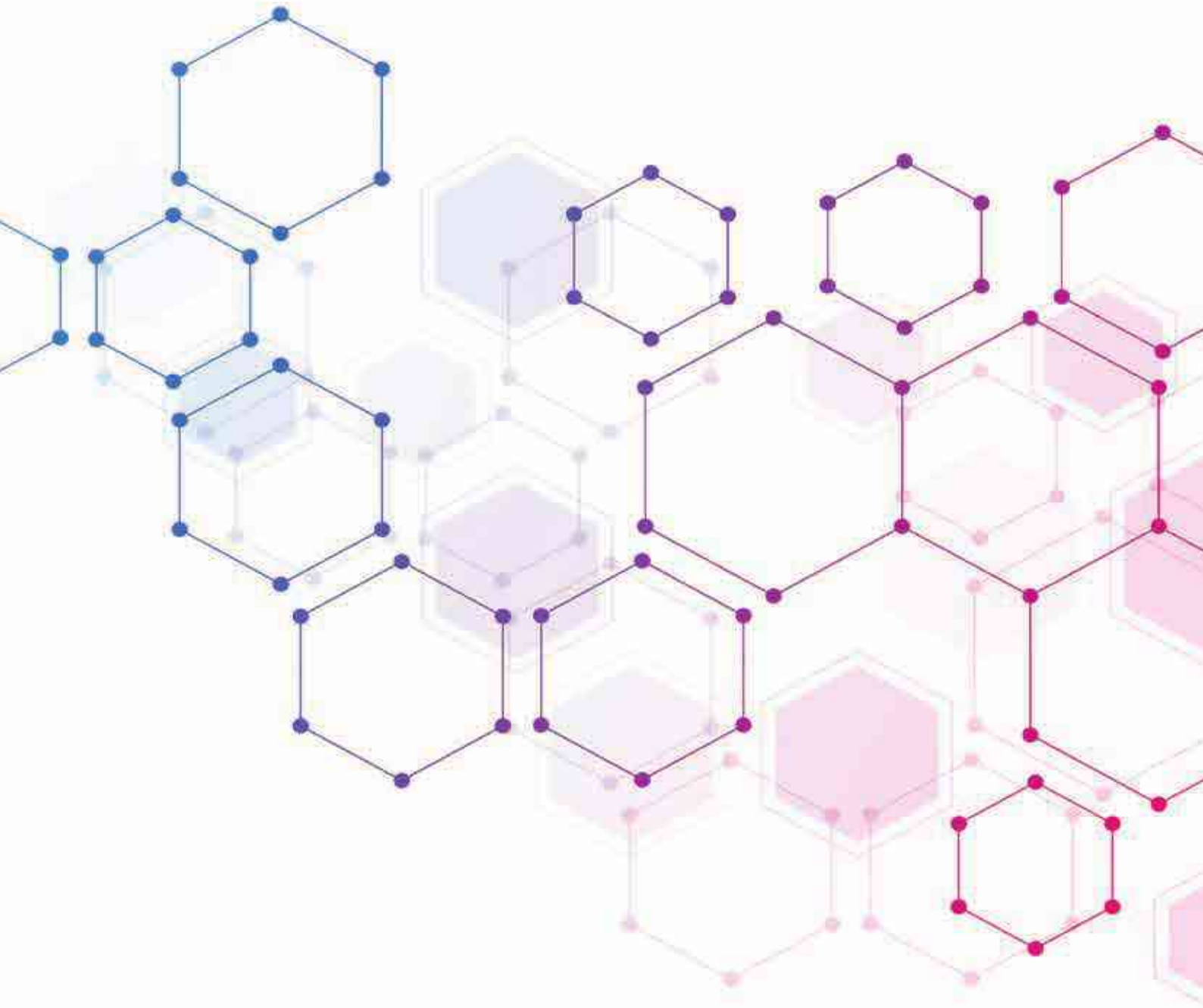
The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. 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:

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PHARMESIS

PHARMESIS INTERNATIONAL LTD.

Company Registration Number: 200309641E
5 Kallang Sector #03-02 Singapore 349279
www.pharmesis.com