PHARMESIS INTERNATIONAL LTD.

Co. Registration No. 200309641E

Financial Statements and Dividend Announcement for the 9 months ended 30 September 2014

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

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

1. UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2014

	Group			Group		
	3 months ended 30.09.2014 RMB'000	3 months ended 30.09.2013 RMB'000	+ / (-) %	9 months ended 30.09.2014 RMB'000	9 months ended 30.09.2013 RMB'000	+ / (-) %
Revenue	17,732	16,800	5.5	45,718	47,072	(2.9)
Cost of sales	(8,318)	(6,406)	29.8	(20,698)	(18,781)	10.2
Gross Profit	**9,414**	**10,394**	(9.4)	**25,020**	**28,291**	(11.6)
Other Income	5	5	-	13	6	116.7
Selling and distribution costs	(6,303)	(5,305)	18.8	(18,242)	(17,954)	1.6
Administrative costs	(4,021)	(3,786)	6.2	(10,514)	(11,447)	(8.2)
(Loss)/Profit from operations	**(905)**	**1,308**	n.m.	**(3,723)**	**(1,104)**	237.2
Finance income	784	22	3,463.6	2,288	77	2,871.4
Finance costs	(101)	(9)	1,022.2	(269)	(22)	1,122.7
Net finance income	683	13	5,153.8	2,019	55	3,570.9
(Loss)/Profit before tax	**(222)**	**1,321**	n.m.	**(1,704)**	**(1,049)**	62.4
Income tax expense	(26)	-	100.0	(26)	-	100.0
(Loss)/Profit for the period	**(248)**	**1,321**	n.m.	**(1,730)**	**(1,049)**	64.9
Attributable to:						
Equity holders of the Company	**(121)**	**852**	n.m.	**(699)**	**(1,288)**	(45.7)
Non-controlling interest	(127)	469	n.m.	(1,031)	239	n.m.
(Loss)/Profit for the period	**(248)**	**1,321**	n.m.	**(1,730)**	**(1,049)**	64.9

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

	Group			Group		
	3 months ended 30.09.2014 RMB'000	3 months ended 30.09.2013 RMB'000	+ / (-) %	9 months ended 30.09.2014 RMB'000	9 months ended 30.09.2013 RMB'000	+ / (-) %
Interest Income	784	22	3,463.6	2,288	77	2,871.4
Allowance for doubtful debts	(460)	(138)	233.3	(778)	(334)	132.9
Depreciation and amortisation	(707)	(920)	(23.2)	(2,157)	(2,745)	(21.4)
Foreign exchange (loss)/gain	(6)	22	n.m.	2	10	(80.0)
Inventories written off	(209)	-	100.0	(209)	-	100.0
Loss on disposal of property, plant and equipment	(17)	-	100.0	(17)	-	100.0

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

n.m. denotes not meaningful

2. UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

	Group			
	3 months ended 30.09.2014 RMB'000	3 months ended 30.09.2013 RMB'000	9 months ended 30.09.2014 RMB'000	9 months ended 30.09.2013 RMB'000
(Loss)/Profit for the period	**(248)**	**1,321**	**(1,730)**	**(1,049)**
Other comprehensive income	-	-	-	-
Total comprehensive income	**(248)**	**1,321**	**(1,730)**	**(1,049)**
Total comprehensive income attributable to**:**				
Equity holders of the Company	**(121)**	**852**	**(699)**	**(1,288)**
Non-controlling interest	(127)	469	(1,031)	239
	(248)	**1,321**	**(1,730)**	**(1,049)**

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

UNAUDITED STATEMENTS OF FINANCIAL POSITION

	GROUP		COMPANY	
	As at 30/09/2014 RMB'000	**As at 31/12/2013 RMB'000**	**As at 30/09/2014 RMB'000**	**As at 31/12/2013 RMB'000**
Non-current assets				
Property, plant and equipment	13,929	15,262	65	87
Land use rights	3,076	3,152	-	-
Intangible assets	3,792	4,453	-	-
Investment in subsidiaries	-	-	54,999	54,999
Goodwill on consolidation	1,323	1,323	-	-
	22,120	**24,190**	**55,064**	**55,086**
Current assets				
Structured deposit	15,000	15,000	-	-
Inventories	4,595	5,749	-	-
Trade receivables	22,740	29,562	-	-
Prepaid expenses	333	241	9	59
Other receivables	8,036	3,568	21	21
Tax recoverable	302	328	-	-
Cash and cash equivalents	31,953	22,950	480	3,062
	82,959	**77,398**	**510**	**3,142**
Current liabilities				
Bank borrowing	5,000	-	-	-
Trade payables	1,498	1,783	-	-
Accrued liabilities and other payables	3,810	3,304	702	750
Tax payable	10	10	10	10
	10,318	**5,097**	**712**	**760**
Net current assets/(liabilities)	**72,641**	**72,301**	**(202)**	**2,382**
Non-current liabilities				
Deferred tax liabilities	488	488	488	488
	488	**488**	**488**	**488**
Net assets	**94,273**	**96,003**	**54,374**	**56,980**
Equity attributable to equity holders of the Company				
Share capital	77,315	77,315	77,315	77,315
Reserves	13,109	13,808	(22,941)	(20,335)
Share capital and Reserves	**90,424**	**91,123**	**54,374**	**56,980**
Non-controlling interest	3,849	4,880	-	-
Capital Employed	**94,273**	**96,003**	**54,374**	**56,980**

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

Amount repayable in one year or less, or on demand

In RMB'000

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

Amount repayable after one year

In RMB'000

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

Details of any collateral

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

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

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

	Group			
	3 months ended 30.09.2014 RMB'000	3 months ended 30.09.2013 RMB'000	9 months ended 30.09.2014 RMB'000	9 months ended 30.09.2013 RMB'000
Cash flows from operating activities				
(Loss)/Profit before tax	(222)	1,321	(1,704)	(1,049)
Adjustments for:				
Allowance for/(Reversal of) doubtful debts	460	138	778	334
Depreciation and amortisation	707	920	2,157	2,745
Interest income	(784)	(22)	(2,288)	(77)
Loss on disposal of property, plant and equipment	17	-	17	-
Inventories written off	209	-	209	-
Operating profit/(loss) before changes in working capital	387	2,357	(831)	1,953
Changes in working capital				
Trade receivables	(1,474)	(1,894)	6,044	1,245
Prepayments, deposits and other receivables	332	(162)	(2,344)	(448)
Inventories	1,090	458	945	1,031
Trade payables	(739)	(244)	(285)	(596)
Accrued liabilities and other payables	873	800	506	(69)
Cash flows from operations	469	1,315	4,035	3,116
Interest received	28	22	72	77
Income tax paid	-	(28)	-	(28)
Net cash flows from operating activities	**497**	**1,309**	**4,107**	**3,165**
Cash flows from investing activities				
Acquisition of property, plant and equipment	(26)	(330)	(294)	(451)
Proceeds from disposal of property, plant and equipment	190	-	190	-
Net cash flows from/(used in) investing activities	**164**	**(330)**	**(104)**	**(451)**
Cash flows from financing activities				
Proceeds from bank borrowing	-	-	5,000	-
Proceeds from maturity of structured deposit	-	-	-	11,000
Net cash flows from financing activities	**-**	**-**	**5,000**	**11,000**
Net increase in cash and cash equivalents	661	979	9,003	13,714
Cash and cash equivalents at beginning of period	31,292	38,520	22,950	25,785
Cash and cash equivalents at end of period	**31,953**	**39,499**	**31,953**	**39,499**

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

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
Group In RMB'000	**Share Capital**	**Employee Share Options Reserve**	**Statutory Reserve**	**Accumulated Profits**	**Total**	**Non-controlling Interest**	**Total Equity**
At 1 January 2014	77,315	4,431	11,924	(2,547)	91,123	4,880	96,003
Total comprehensive income	-	-	-	(459)	(459)	(667)	(1,126)
At 31 March 2014	77,315	4,431	11,924	(3,006)	90,664	4,213	94,877
Total comprehensive income	-	-	-	(119)	(119)	(237)	(356)
At 30 June 2014	77,315	4,431	11,924	(3,125)	90,545	3,976	94,521
Total comprehensive income	-	-	-	(121)	(121)	(127)	(248)
At 30 September 2014	**77,315**	**4,431**	**11,924**	**(3,246)**	**90,424**	**3,849**	**94,273**
At 1 January 2013	77,315	5,061	11,568	(3,296)	90,648	4,392	95,040
Total comprehensive income	-	-	-	(1,005)	(1,005)	(119)	(1,124)
At 31 March 2013	77,315	5,061	11,568	(4,301)	89,643	4,273	93,916
Total comprehensive income	-	-	-	(1,135)	(1,135)	(111)	(1,246)
At 30 June 2013	77,315	5,061	11,568	(5,436)	88,508	4,162	92,670
Total comprehensive income	-	-	-	852	852	469	1,321
At 30 September 2013	**77,315**	**5,061**	**11,568**	**(4,584)**	**89,360**	**4,631**	**93,991**

Company In RMB'000	**Share Capital**	**Employee Share Options Reserve**	**Accumulated Losses**	**Total Equity**
At 1 January 2014	77,315	4,431	(24,766)	56,980
Total comprehensive income	-	-	(853)	(853)
At 31 March 2014	77,315	4,431	(25,619)	56,127
Total comprehensive income	-	-	(804)	(804)
At 30 June 2014	77,315	4,431	(26,423)	55,323
Total comprehensive income	-	-	(949)	(949)
At 30 September 2014	**77,315**	**4,431**	**(27,372)**	**54,374**
At 1 January 2013	77,315	5,061	(25,928)	56,448
Total comprehensive income	-	-	(862)	(862)
At 31 March 2013	77,315	5,061	(26,790)	55,586
Total comprehensive income	-	-	(753)	(753)
At 30 June 2013	77,315	5,061	(27,543)	54,833
Total comprehensive income	-	-	2,878	2,878
At 30 September 2013	**77,315**	**5,061**	**(24,665)**	**57,711**

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

Share Capital
There is no change in the Company's issued share capital since the previous financial period ended 30 June 2014.

Share Options
During 3Q 2014, there is no share option (3Q 2013: Nil) granted under the Pharmesis Share Option Scheme. As at 30 September 2014, there were unexercised options for 10,200,000 (30 September 2013: 11,650,000) of ordinary shares under the Company's Share Option Scheme.

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

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

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed under item 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period as that of the audited financial statements for the year ended 31 December 2013.

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

The Group has adopted the new and revised FRSs and Interpretation of FRS (INT FRS) that are effective for financial periods beginning 1 January 2014. The adoption of these new and revised FRS and INT FRSs did not have material effect on the financial performance or position of the Group.

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

	Group			
	3 months ended 30.09.2014	**3 months ended 30.09.2013**	**9 months ended 30.09.2014**	**9 months ended 30.09.2013**
(i) Based on weighted average number of shares (RMB cents)	(0.06)	0.43	(0.35)	(0.64)
Weighted average number of shares	200,000,000	200,000,000	200,000,000	200,000,000
(ii) On a fully diluted basis (RMB cents)*	(0.06)	0.43	(0.35)	(0.64)
Adjusted weighted average number of shares	200,000,000	200,000,000	200,000,000	200,000,000

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

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

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

	Group		Company	
In RMB cents	**30.09.2014**	**31.12.2013**	**30.09.2014**	**31.12.2013**
Net asset value per ordinary share	45.21	45.56	27.19	28.49
No. of shares in computing NAV	200,000,000	200,000,000	200,000,000	200,000,000

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

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

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

INCOME STATEMENT

The Group's revenue for 3Q 2014 increased by RMB 0.9 million or 5.5% to RMB 17.7 million as compared with 3Q 2013 mainly due to higher sales from its non-prescribed drug, namely ErDing granules, offset by lower sales from its prescribed drugs segment due to lower demand.

Gross profit margin decreased from 61.9% in 3Q 2013 to 53.1% in 3Q 2014 following higher raw material costs and contribution from non-prescribed drugs where margins are lower.

Selling and distribution costs increased by RMB 1.0 million or 18.8% for 3Q 2014 mainly due to more efforts expended in marketing and promoting the Group's products. Administrative costs increased by RMB 0.2 million or 6.2% for 3Q 2014 mainly due to accrued property taxes (as the property tax exemption period has expired) and higher provision for doubtful debts, offset by lower rental expenses.

Finance income increased for 3Q 2014 primarily due to interest income on the structured deposit. Finance costs were mainly interest charges for a RMB 5.0 million bank borrowing which Longlife took up to partially repay Kinna for its intercompany loan.

As a result of the above, the Group recorded a net loss attributable to shareholders of RMB 0.1 million for 3Q 2014.

STATEMENT OF FINANCIAL POSITION

The Group's non-current assets were RMB 22.1 million as at 30 September 2014, a decrease of RMB 2.1 million from RMB 24.2 million as at 31 December 2013. This was mainly due to depreciation of the Group's property, plant and equipment and amortisation of its land use rights and intangible assets.

The Group's current assets were RMB 83.0 million as at 30 September 2014, an increase of RMB 5.6 million from RMB 77.4 million as at 31 December 2013. This was mainly due to higher cash and cash equivalents and other receivables. Cash and cash equivalents increased mainly due to cash received following repayment of the RMB 5.0 million loan from Longlife and better collections from trade receivables. Other receivables increased due to advances to salesmen, advances to staff for cash purchases and accrual of interest receivable from structured deposit for the 9 months period under review. Improved collections attributed to lower trade receivables for the period under review. Inventories were also lower as raw materials were being used up for production.

The Group's current liabilities were RMB 10.3 million as at 30 September 2014, an increase of RMB 5.2 million from RMB 5.1 million as at 31 December 2013 mainly due to bank borrowing which Longlife took up to repay Kinna and accruals for the 9 months period under review. Trade payables were lower mainly due to faster repayment.

CASH FLOW STATEMENT

Net cash from operating activities amounted to RMB 4.1 million in the 9 months ended 30 September 2014, as compared to RMB 3.2 million net cash generated in the previous corresponding period. Despite an operating loss, net cash from operating activities were higher for the current period primarily due to faster collections from trade receivables.

Net cash used by investing activities amounted to RMB 0.1 million, mainly for the purchase of plant equipments.

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

As at the end of 30 September 2014, the Group had a cash and cash equivalents of RMB 32.0 million.

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

In line with the prospect statement made in 1H FY2014.

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

The Group's prescribed drugs were not subject to any price cuts so far this year. However, the Group is unable to predict whether there will be further price cuts by the authorities in the future. Furthermore, given the highly competitive and regulated nature of China's pharmaceutical industry, there will be continued pricing pressure on our products. To reduce reliance on our prescribed drugs segment, the Group has been expending efforts to expand our distribution network for its non-prescribed drugs. Though its contribution to the Group is expanding, it remains small due to its low margin.

Nevertheless, management remains committed and is on the lookout for growth opportunities to improve the profitability of the Group

11. Dividend

(a) Current Financial Period Reported On

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

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

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

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

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

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

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

BY ORDER OF THE BOARD

WU XUEDAN
EXECUTIVE DIRECTOR

7 November 2014