PHARMESIS

PHARMESIS INTERNATIONAL LTD.

Co. Registration No. 200309641E

Financial Statements and Dividend Announcement for the 3 months ended 31/03/2019

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

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

1. <u>UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2019</u>

	Group		Increase / (Decrease)
	1Q 2019	**1Q 2018**	
	RMB'000	**RMB'000**	**%**
Revenue	8,038	15,395	(47.8)
Cost of sales	(3,525)	(7,706)	(54.3)
Gross Profit	**4,513**	**7,689**	(41.3)
Other income	51	1,272	(96.0)
Selling and distribution costs	(4,739)	(5,287)	(10.4)
Administrative costs	(3,230)	(2,453)	31.7
(Loss)/profit from operations	(3,405)	1,221	n.m.
Finance income	28	30	(6.7)
Finance costs	(195)	(200)	(2.5)
Net finance costs	(167)	(170)	(1.8)
(Loss)/profit before tax	**(3,572)**	**1,051**	n.m.
Income tax expense	-	-	n.m.
(Loss)/profit for the period	**(3,572)**	**1,051**	n.m.
Attributable to:			
Equity holders of the Company	**(2,724)**	**255**	n.m.
Non-controlling interest	(848)	796	n.m.
(Loss)/profit for the period	**(3,572)**	**1,051**	n.m.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

	Group		Increase /
	1Q 2019	**1Q 2018**	**(Decrease)**
	RMB'000	**RMB'000**	**%**
Government grants	7	77	(80.0)
Relocation compensation	-	1,276	n.m
Interest Income	28	30	(6.7)
Write-back-of impairment allowance for trade receivables	-	121	n.m
Depreciation and amortisation	(420)	(275)	52.7
Depreciation – rights-of-use assest	(17)	-	n.m
Foreign exchange gain/(loss)	44	(81)	n.m

n.m. denotes not meaningful

2. UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Group	
	1Q 2019	**1Q 2018**
	RMB'000	**RMB'000**
Net (loss)/profit	**(3,572)**	**1,051**
Other comprehensive income	-	-
Total comprehensive (loss)/profit	**(3,572)**	**1,051**
Total comprehensive (loss)/profit attributable to**:**		
Equity holders of the Company	**(2,724)**	**255**
Non-controlling interest	(848)	796
	(3,572)	**1,051**

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 31.3.2019 RMB'000	**As at 31.12.2018 RMB'000**	**As at 31.3.2019 RMB'000**	**As at 31.12.2018 RMB'000**
Non-current assets				
Property, plant and equipment	11,884	12,176	4	-
Land use rights	7,552	7,620	-	-
Construction-in-progress	28,408	28,408	-	-
Right-of-use assets	105	-	105	-
Investment in subsidiaries	-	-	54,999	54,999
Goodwill on consolidation	1,323	1,323	-	-
	49,272	**49,527**	**55,108**	**54,999**
Current assets				
Inventories	10,548	9,725	-	-
Trade receivables	14,830	19,527	-	-
Prepaid expenses	586	167	100	73
Other receivables	12,115	14,530	21	21
Tax recoverable	107	107	-	-
Cash and cash equivalents	31,257	34,715	1,720	3,040
	69,443	**78,771**	**1,841**	**3,134**
Current liabilities				
Bank borrowings	15,000	15,000	-	-
Trade payables	2,683	3,380	-	-
Accrued liabilities and other payables	4,565	9,872	607	837
Lease liabilities	75	-	75	-
Tax payable	200	312	3	3
	22,523	**28,564**	**685**	**840**
Net current assets	**46,920**	**50,207**	**1,156**	**2,294**
Non-current liabilities				
Lease liabilities	34	-	34	-
Deferred tax liabilities	757	757	-	-
	791	**757**	**34**	**-**
Net assets	**95,401**	**98,977**	**56,230**	**57,293**
Equity attributable to equity holders of the Company				
Share capital	83,714	83,714	83,714	83,714
Reserves	3,820	6,548	(27,484)	(26,421)
Share capital and Reserves	**87,534**	**90,262**	**56,230**	**57,293**
Non-controlling interest	7,867	8,715	-	-
Total equity	**95,401**	**98,977**	**56,230**	**57,293**

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

Amount repayable in one year or less, or on demand

In RMB’000

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

Amount repayable after one year

In RMB’000

As at 31 March 2019		As at 31 December 2018	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

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

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

<u>UNAUDITED STATEMENT OF CASH FLOWS FOR PERIOD ENDED 31 MARCH 2019</u>

	Group	
	1Q 2019	**1Q 2018**
	RMB'000	**RMB'000**
Cash flows from operating activities		
(Loss)/profit before tax	(3,572)	1,051
Adjustments for:		
Write-back-of impairment allowance for trade receivables	-	(121)
Depreciation and amortisation	420	275
Depreciation – use-of-rights assets	17	-
Interest expense	195	200
Interest income	(28)	(30)
Operating (loss)/profit before changes in working capital	(2,968)	1,375
Changes in working capital		
Trade receivables	4,697	2,475
Prepayments, deposits and other receivables	1,996	1,525
Inventories	(823)	(2,532)
Trade payables	(697)	(27)
Accrued liabilities and other payables	(5,307)	(848)
Cash (used in)/generated from operations	(3,102)	1,968
Interest received	28	30
Interest paid	(195)	(200)
Income tax paid	(112)	(171)
Net cash flows (used in)/from operating activities	**(3,381)**	**1,627**
Cash flows from investing activities		
Additions to construction in progress	-	(119)
Acquisition of property, plant and equipment	(60)	(1,291)
Net cash flows used in investing activities	**(60)**	**(1,410)**
Cash flows from financing activities		
Repayment of lease obligations	(17)	-
Proceeds from bank borrowings	15,000	15,000
Repayment of bank borrowings	(15,000)	(15,000)
Net cash flows from financing activities	**(17)**	**-**
Net (decrease)/increase in cash and cash equivalents	(3,458)	217
Cash and cash equivalents at the beginning of the year	34,715	35,485
Cash and cash equivalents at the end of the period	**31,257**	**35,702**

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 Losses**	**Total**	**Non-controlling Interest**	**Total Equity**
At 1 January 2019	83,714	-	12,392	(5,844)	90,262	8,715	98,977
SFRS(I) 16 Adjustments	-	-	-	(4)	(4)	-	(4)
Adjusted balance at 1 January 2019	83,714	-	12,392	(5,848)	90,258	8,715	98,973
Total comprehensive income	-	-	-	(2,724)	(2,724)	(848)	(3,572)
At 31 March 2019	**83,714**	-	**12,392**	**(8,572)**	**87,534**	**7,867**	**95,401**
At 1 January 2018	83,714	4,431	11,924	(11,020)	89,049	4,964	94,013
Expiry of employee share option	-	(4,431)	-	4,431	-	-	-
Total comprehensive income	-	-	-	255	255	796	1,051
At 31 March 2018	**83,714**	**-**	**11,924**	**(6,334)**	**89,304**	**5,760**	**95,064**

Company In RMB'000	**Share Capital**	**Employee Share Options Reserve**	**Accumulated Losses**	**Total Equity**
At 1 January 2019	83,714	-	(26,421)	57,293
SFRS(I) 16 Adjustments	-	-	(4)	(4)
Adjusted balance at 1 January 2019	83,714	-	(26,425)	57,289
Total comprehensive income	-	-	(1,059)	(1,059)
At 31 March 2019	**83,714**	**-**	**(27,484)**	**56,230**
At 1 January 2018	83,714	4,431	(27,156)	60,989
Expiry of employee share option	-	(4,431)	4,431	-
Total comprehensive income	-	-	(1,001)	(1,001)
At 31 March 2018	**83,714**	**-**	**(23,726)**	**59,988**

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 last financial year ended 31 December 2018.

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

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

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed in paragraph 9 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements as at 31 December 2018.

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

The Group and the Company adopted the following new Singapore Financial Reporting Standards (International) ("SFRS(I)"), amendments and interpretations of SFRS(I)s effective from 1 January 2019:

- SFRS(I)16 *Leases*

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

The Group applied SFRS(I) 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019.

Group	**As previously reported**	**SFRS(I) 16 Adjustments**	**As restated**
1st January 2019	**RMB'000**	**RMB'000**	**RMB'000**
Non Current Assets			
Right-of-use assets	-	122	122
Non Current Liabilities			
Lease liabilities	-	51	51
Current Liabilities			
Lease liabilities	-	75	75
Equity			
Accumulated losses	(5,844)	(4)	(5,848)

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	
In RMB cents	**1Q 2019**	**1Q 2018**
(i) Based on weighted average number of shares	(11.8)	1.1
Weighted average number of shares	23,000,000	23,000,000
(ii) On a fully diluted basis	(11.8)	1.1
Adjusted weighted average number of shares	23,000,000	23,000,000

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

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

	Group		**Company**	
In RMB	**31.03.2019**	**31.12.2018**	**31.03.2019**	**31.12.2018**
Net asset value per ordinary share	3.81	3.92	2.44	2.49
No. of shares in computing NAV	23,000,000	23,000,000	23,000,000	23,000,000

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

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

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

INCOME STATEMENT

The Group's revenue decreased by RMB 7.4 million or 47.8% from RMB 15.4 million in 1Q 2018 to RMB 8.0 million in 1Q 2019. Revenue from prescribed drugs decreased by RMB 1.2 million mainly due to lower revenue from ATT products. Revenue from non-prescribed drugs/distribution segment decreased by RMB 6.2 million mainly due to lower revenue from Er Ding products. China's plan to drive down drug prices through the newly introduced centralised bulk procurement programme in hospitals, has led to intense price wars between pharmaceutical companies. Consequently, the Group's revenue has been severely affected.

Gross profit margin increased from 49.9% in 1Q 2018 to 56.1% in 1Q 2019 mainly due to higher sales mix from ATT products which have higher margins. Other income decreased from RMB 1.3 million in 1Q 2018 to RMB 0.1 million in 1Q 2019. In 1Q 2018, there was a one-off relocation compensation of RMB 1.3 million by the government.

Selling and distribution costs decreased slightly from RMB 5.3 million in 1Q 2018 to RMB 4.7 million in 1Q 2019 mainly due to lower corresponding sales. Administrative costs increased from RMB 2.5 million in 1Q 2018 to RMB 3.0 million for 1Q 2019 mainly due to higher professional fees, absence of write-back-of impairment allowance for trade receivables.

Finance income decreased from RMB 30,000 in 1Q 2018 to RMB 28,000 for 1Q 2019, mainly due to lower interest income from cash and cash equivalents. Finance costs decreased slightly from RMB 200,000 in 1Q 2018 to RMB 195,000 for 1Q 2019.

As a result of the above, the Group recorded a net loss after tax attributable to equity holders of the Company of RMB 2.7 million in 1Q 2019, as compared to a net profit after tax of RMB 0.3 million in 1Q 2018.

STATEMENT OF FINANCIAL POSITION

The Group's non-current assets were RMB 49.3 million as at 31 March 2019, an decrease of RMB 0.2 million from RMB 49.5 million as at 31 December 2018. This was mainly due to the decrease in property, plant and equipment and land use rights.

The Group's current assets were RMB 69.4 million as at 31 March 2019, a decrease of RMB 9.4 million from RMB 78.8 million as at 31 December 2018. This was mainly due to lower trade receivables, other receivables, cash and cash equivalents and higher inventories and prepaid expenses. Inventories increased mainly due to higher inventory levels for Er Ding granules.

The Group's current liabilities were RMB 22.5 million as at 31 March 2019, an decrease of RMB 6.1 million from RMB 28.6 million as at 31 December 2018 mainly due to decrease in trade payables, tax payable and accrued liabilities and other payables.

STATEMENT OF CASH FLOWS

The Group's net cash outflow from operating activities was RMB 3.4 million for the quarter mainly due to its operating loss, changes in working capital and interest and income tax paid.

Net cash used in investing activities amounted to RMB 0.1 million, incurred mainly for the acquisition of property, plant and machinery.

As at 31 March 2019, the Group had a cash and cash equivalents of RMB 31.3 million.

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

In line with the prospect statement made in 4Q 2018.

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

As explained in paragraph 8, China's plan to drive down drug prices through the newly introduced centralised bulk procurement programme in hospitals has intensified the competition between pharmaceutical companies. The Group's business environment has therefore become more challenging. The Group will continue to focus on improving sales and managing its operations cost-effectively.

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 and the reason(s) for the decision.

No dividends have been recommended for the current financial period ended 31 March 2019 in view of the accumulated losses.

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

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

14. Board Negative Assurance Confirmation for Interim Financial Results.

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 results for the 3 months ended 31 March 2019 to be false or misleading in any material respect.

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

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

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

The Company has not utilised the net proceeds of SGD 1.4 million from the issuance of 3 million new ordinary shares at the issue price of SGD 0.50 per share in 2015.

BY ORDER OF THE BOARD

WU XUEDAN
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

14 May 2019