PHARMESIS

PHARMESIS INTERNATIONAL LTD.

Co. Registration No. 200309641E

Financial Statements and Dividend Announcement for the 9 months ended 30 September 2019

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

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

1. UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

	Group			Group		
	3 months ended 30.09.2019	3 months ended 30.09.2018	+ / (-)	9 months ended 30.09.2019	9 months ended 30.09.2018	+ / (-)
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Revenue	6,726	13,290	(49.4)	25,170	47,946	(47.5)
Cost of sales	(3,876)	(5,537)	(30.0)	(12,386)	(24,739)	(49.9)
Gross Profit	**2,850**	**7,753**	(63.2)	**12,784**	**23,207**	(44.9)
Other (expense)/income	(772)	175	n.m.	(792)	2,074	n.m.
Selling and distribution costs	(4,332)	(5,036)	(14.0)	(13,538)	(15,372)	(11.9)
Administrative costs	(2,723)	(2,779)	(2.0)	(8,741)	(7,785)	12.3
(Loss)/profit from operations	**(4,977)**	**114**	n.m.	**(10,286)**	**2,124**	n.m.
Finance income	11	22	(50.0)	56	91	(38.5)
Finance costs	(217)	(227)	(4.4)	(684)	(660)	3.7
Net finance costs	(206)	(205)	0.5	(628)	(569)	10.4
(Loss)/profit before tax	**(5,183)**	**(91)**	5,596	**(10,914)**	**1,555**	n.m.
Income tax expense	-	(450)	n.m.	(31)	(450)	(93.1)
(Loss)/profit for the period	**(5,183)**	**(541)**	858.0	**(10,945)**	**1,105**	n.m.
Attributable to:						
Equity holders of the Company	**(4,643)**	**(1,208)**	284.4	**(9,567)**	**(1,030)**	828.8
Non-controlling interest	(540)	667	n.m.	(1,378)	2,135	n.m.
(Loss)/profit for the period	**(5,183)**	**(541)**	858.0	**(10,945)**	**1,105**	n.m.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

	Group			Group		
	3 months ended 30.09.2019 RMB'000	3 months ended 30.09.2018 RMB'000	+ / (-) %	9 months ended 30.09.2019 RMB'000	9 months ended 30.09.2018 RMB'000	+ / (-) %
Interest Income	11	22	(50.0)	56	91	(38.5)
Government grant	11	62	(82.3)	18	682	(97.4)
Relocation compensation	-	-	-	-	1,276	n.m.
Allowance for doubtful receivables - trade	-	(45)	n.m.	-	131	n.m.
Depreciation and amortisation	(469)	(413)	13.6	(1,405)	(1,037)	35.5
Foreign exchange gain/(loss)	21	113	(81.4)	(9)	116	n.m.
Inventories written off	(847)	-	n.m.	(847)	-	n.m.

n.m. denotes not meaningful

2. UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

	Group			
	3 months ended 30.09.2019 RMB'000	3 months ended 30.09.2018 RMB'000	9 months ended 30.09.2019 RMB'000	9 months ended 30.09.2018 RMB'000
(Loss)/profit for the period	**(5,183)**	**(541)**	**(10,945)**	**1,105**
Other comprehensive income	-	-	-	-
Total comprehensive income	**(5,183)**	**(541)**	**(10,945)**	**1,105**
Total comprehensive income attributable to:				
Equity holders of the Company	**(4,643)**	**(1,208)**	**(9,567)**	**(1,030)**
Non-controlling interest	(540)	667	(1,378)	2,135
	(5,183)	**(541)**	**(10,945)**	**1,105**

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 30.9.2019 RMB'000	**As at 31.12.2018 RMB'000**	**As at 30.9.2019 RMB'000**	**As at 31.12.2018 RMB'000**
Non-current assets				
Property, plant and equipment	11,249	12,176	7	-
Land use rights	7,416	7,620	-	-
Construction-in-progress	28,408	28,408	-	-
Right-of-use assets	846	-	58	-
Investments in subsidiaries	-	-	54,999	54,999
Goodwill on consolidation	1,323	1,323	-	-
	49,242	**49,527**	**55,064**	**54,999**
Current assets				
Inventories	6,966	9,725	-	-
Trade receivables	13,706	19,527	-	-
Prepaid expenses	271	167	107	73
Other receivables	11,716	14,530	21	21
Tax recoverable	107	107	-	-
Cash and cash equivalents	15,108	34,715	846	3,040
	47,874	**78,771**	**974**	**3,134**
Current liabilities				
Bank borrowings	15,000	15,000	-	-
Trade payables	1,657	3,380	-	-
Accrued liabilities and other payables	6,891	9,872	816	837
Lease liabilities	221	-	59	-
Tax payable	72	312	-	3
	23,840	**28,564**	**875**	**840**
Net current assets	**24,034**	**50,207**	**99**	**2,294**
Non-current liabilities				
Lease liabilities	630	-	-	-
Deferred tax liabilities	314	757	-	-
	944	**757**	**-**	**-**
Net assets	**72,332**	**98,977**	**55,163**	**57,293**
Equity attributable to equity holders of the Company				
Share capital	83,714	83,714	83,714	83,714
Reserves	(13,789)	6,548	(28,551)	(26,421)
Share capital and Reserves	**69,925**	**90,262**	**55,163**	**57,293**
Non-controlling interest	2,407	8,715	-	-
Total equity	**72,332**	**98,977**	**55,163**	**57,293**

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

Amount repayable in one year or less, or on demand

In RMB'000

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

Amount repayable after one year

In RMB'000

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

Details of any collateral

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

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

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

	Group			
	3 months ended 30.09.2019	**3 months ended 30.09.2018**	**9 months ended 30.09.2019**	**9 months ended 30.09.2018**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash flows from operating activities				
(Loss)/profit before tax	(5,183)	(91)	(10,914)	1,555
Adjustments for:				
Allowance for/(Reversal of) doubtful debts	-	45	-	(131)
Depreciation and amortisation	469	413	1,405	1,037
Interest expense	217	227	684	660
Interest income	(11)	(22)	(56)	(91)
Operating profit before changes in working capital	(4,508)	572	(8,881)	3,030
Changes in working capital				
Trade receivables	80	1,567	5,821	6,692
Prepayments, deposits and other receivables	232	(1,241)	2,710	2,238
Inventories	3,762	(3,315)	2,759	(4,618)
Trade payables	(623)	1,961	(1,723)	3,317
Accrued liabilities and other payables	1,026	(110)	(3,113)	(7,304)
Cash flows from operations	(31)	(566)	(2,427)	3,355
Interest received	11	22	56	91
Interest paid	(217)	(227)	(684)	(660)
Income tax paid	-	(72)	(714)	(254)
Net cash flows (used in)/from operating activities	**(237)**	**(843)**	**(3,769)**	**2,532**
Cash flows from investing activities				
Acquisition of property, plant and equipment	(73)	(349)	(138)	(1,626)
Acquisition of non-controlling interest	-	-	(15,700)	-
Acquisition of construction in progress	-	(15)	-	(438)
Net cash flows used in investing activities	**(73)**	**(364)**	**(15,838)**	**(2,064)**
Cash flows from financing activities				
Proceeds from bank borrowings	-	-	15,000	15,000
Repayment of bank borrowings	-	-	(15,000)	(15,000)
Net cash flows from financing activities	**-**	**-**	**-**	**-**
Net increase in cash and cash equivalents	(310)	(1,207)	(19,607)	468
Cash and cash equivalents at beginning of period	15,418	37,160	34,715	35,485
Cash and cash equivalents at end of period	**15,108**	**35,953**	**15,108**	**35,953**

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**	**Premium paid on acquisition of non-controlling interest**	**Statutory Reserve**	**Accumulated Profits**	**Total**	**Non-controlling Interest**	**Total Equity**
At 1 January 2019	83,714	-	12,392	(5,844)	90,262	8,715	98,977
Total comprehensive income	-	-	-	(2,724)	(2,724)	(848)	(3,572)
At 31 March 2019	83,714	-	12,392	(8,568)	87,538	7,867	95,405
Acquisition of non-controlling interest	-	(10,860)	-	-	(10,860)	(4,840)	(15,700)
Total comprehensive income	-	-	-	(2,200)	(2,200)	10	(2,190)
At 30 June 2019	83,714	(10,860)	12,392	(10,768)	74,478	3,037	77,515
Total comprehensive income	-	-	-	(4,643)	(4,643)	(540)	(5,183)
At 30 September 2019	**83,714**	**-**	**12,392**	**(15,411)**	**69,835**	**2,497**	**72,332**

Group In RMB'000	**Share Capital**	**Employee Share Options Reserve**	**Statutory Reserve**	**Accumulated Profits**	**Total**	**Non-controlling Interest**	**Total Equity**
At 1 January 2018	83,714	4,431	11,924	(11,020)	89,049	4,964	94,013
Expiry of employee share options	-	(4,431)	-	4,431	-	-	-
Total comprehensive income	-	-	-	255	255	796	1,051
At 31 March 2018	83,714	-	11,924	(6,334)	89,304	5,760	95,064
Total comprehensive income	-	-	-	(77)	(77)	672	595
At 30 June 2018	83,714	-	11,924	(6,411)	89,227	6,432	95,659
Total comprehensive income	-	-	-	(1,208)	(1,208)	667	(541)
At 30 September 2018	**83,714**	**-**	**11,924**	**(7,619)**	**88,019**	**7,099**	**95,118**

Company In RMB'000	Share Capital	Employee Share Options Reserve	Accumulated Losses	Total Equity
At 1 January 2019	83,714	-	(26,421)	57,293
Total comprehensive income	-	-	(1,059)	(1,059)
At 31 March 2019	83,714	-	(27,480)	56,234
Total comprehensive income	-	-	(74)	(74)
At 30 June 2019	83,714	-	(27,554)	56,160
Total comprehensive income	-	-	(996)	(996)
At 30 September 2019	**83,714**	**-**	**(28,550)**	**55,164**
At 1 January 2018	83,714	4,431	(27,156)	60,989
Expiry of employee share options	-	(4,431)	4,431	-
Total comprehensive income	-	-	(1,001)	(1,001)
At 31 March 2018	83,714	-	(23,726)	59,988
Total comprehensive income	-	-	(869)	(869)
At 30 June 2018	83,714	-	(24,595)	59,119
Total comprehensive income	-	-	(830)	(830)
At 30 September 2018	**83,714**	**-**	**(25,425)**	**58,289**

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

Share Capital

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

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

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

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements as at 31 December 2019.

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

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

- SFRS(I)16 *Leases*

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

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

	Group			
	3 months ended		**9 months ended**	
	30.09.2019	**30.09.2018**	**30.09.2019**	**30.09.2018**
(i) Based on weighted average number of shares (RMB cents)	(20.2)	(5.25)	(41.6)	(4.48)
Weighted average number of shares	23,000,000	23,000,000	23,000,000	23,000,000

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

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

	Group		**Company**	
In RMB	**30.09.2019**	**31.12.2018**	**30.09.2019**	**31.12.2018**
Net asset value per ordinary share	3.04	3.92	2.40	2.49
No. of shares in computing NAV	23,000,000	23,000,000	23,000,000	23,000,000

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

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

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

INCOME STATEMENT

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

The Group's revenue decreased by RMB 6.6 million or 49.4% from RMB 13.3 million for 3Q 2018 to RMB 6.7 million for 3Q 2019. Revenue from Group's non-prescribed drugs/distribution segment decreased by RMB 5.8 million and revenue from prescribed drugs segment decreased by RMB 0.8 million.

Gross profit margin decreased from 58.3% in 3Q 2018 to 42.4% in 3Q 2019 mainly due to lower revenue. Other expense was RMB 0.8 million in 3Q 2019, mainly due to inventory written off which was damaged by severe flooding at the Longlife plant caused by torrential rainfall in September 2019.

Selling and distribution costs decreased by RMB 0.7 million or 14.0% from RMB 5.0 million in 3Q 2018 to RMB 4.3 million in 3Q 2019 mainly due to lower revenue. Administrative costs decreased decreased by RMB 0.1 million or 2.0% from RMB 2.8 million in 3Q 2018 to RMB 2.7 million in 3Q 2019.

Finance income for 3Q 2019 decreased by RMB 11,000 from RMB 22,000 in 3Q 2018 to RMB 11,000 in 3Q 2019 mainly due to lower interest income from cash and cash equivalents. Finance costs decreased slightly by RMB 10,000 from RMB 227,000 in 3Q 2018 to RMB 217,000 in 3Q 2019.

As a result of the above, the Group recorded net loss after tax attributable to equity holders of the Company of RMB 4.6 million for 3Q 2019, as compared to net loss of RMB 1.2 million in 3Q 2018.

STATEMENT OF FINANCIAL POSITION

The Group's non-current assets were RMB 49.2 million as at 30 September 2019, a decrease of RMB 0.3 million from RMB 49.5 million as at 31 December 2018. This was mainly due to the decrease in property, plant and equipment and increase in right-of-use assets.

The Group's current assets were RMB 47.9 million as at 30 September 2019, a decrease of RMB 30.9 million from RMB 78.8 million as at 31 December 2018. This was mainly due to lower inventories, trade receivables, other receivables, cash and cash equivalents and higher prepaid expenses.

The Group's current liabilities were RMB 23.8 million as at 30 September 2019, a decrease of RMB 4.8 million from RMB 28.6 million as at 31 December 2018 mainly due to decrease in accrued liabilities and other payables, trade payables and tax payables and increase in lease liabilities.

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

CASH FLOW STATEMENT

The Group's net cash out flow used in operating activities for the third quarter was RMB 0.2 million, mainly due to cash generated from its operations and changes in working capital.

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

As at 30 September 2019, the Group had cash and cash equivalents of RMB 15.1 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 FY2019.

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, the intense competition between pharmaceutical companies caused by China's newly introduced purchase-with-target-quantity policy in "4+7" cities, to drive down drug prices has affected the Group's revenue and profitability negatively. The Group's business environment remains very challenging in the coming months. Management will continue to focus on exploring ways to improve sales and managing the 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 30 September 2019 in view of the accumulated losses.

13. Interested Person Transactions.

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 2019 to be false or misleading in any material aspect.

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

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

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

The Company has not utilised the net proceeds of 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. The original intention was to use the proceeds to acquire an office space in Singapore to house its headquarters and for working capital purposes.

In view of the challenging conditions facing the Group now, the Board has decided to use the whole proceeds for urgent Group's working capital needs.

The Group's business environment has become very challenging due to the new policies implemented by the Chinese Government. The Board is of the view that the Re-allocation is in the best interests of the Company and its shareholders as this will strengthen the Group's working capital position.

The Company will make periodic announcements on the utilisation of the Net Proceeds as and when it is materially disbursed, and will provide a status report on the use of the Net Proceeds in the Company's interim and full year financial statements and the Company's annual report.

BY ORDER OF THE BOARD

WU XUEDAN
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

11 November 2019