PHARMESIS

PHARMESIS INTERNATIONAL LTD.

ANNUAL REPORT 2017

TRANSFORMATION

CONTENTS

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" and "古藺肝苏" brands. 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 under the "国嘉" and "古藺肝苏" brands 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 under the "国嘉" brand and TCM formulated products under the "古蔺肝苏" 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, 2017 ("FY2017").

FY2017 was another challenging year for the pharmaceutical industry in the People's Republic of China. The price cut imposed by the government has been dragging down the industry in the past few years. The business environment in this industry continues to be very competitive. These factors resulted in us reporting a net loss but the Group manages to reduce its loss in FY2017 as compared to FY2016 and maintain its healthy operating condition.

YEAR IN REVIEW

In financial year 2017, the Group registered a total revenue of RMB69.7 million, representing a growth of 1.3%. This was mainly attributable to higher sales from non-prescribed drugs segment brought on by increasing demand for ErDing granules, partially offset by lower sales from prescribed drugs segment. Revenue growth in FY2017 was partly affected by the downtime in manufacturing arising from the preparation of manufacturing our revised product, sugarless ErDing granules which will replace the existing ErDing granules with sugar.

The slight increase in margin of non-prescribed drugs segment, particularly for ErDing granules helped to increase the gross profit margin slightly from 44.5% in FY2016 to 45.1% in FY2017.

Other income decreased by RMB0.2 million to RMB0.6 million in FY2017 mainly due to lower foreign exchange gain.

Selling and distribution costs decreased by 1.4% to RMB21.6 million for FY 2017 due to lower travelling expenses incurred by sales department. Administrative costs decreased by 10.3% to RMB10.7 million for FY2017 mainly due to lower professional fees incurred. Other costs of RMB0.3 million for FY2017 pertained to impairment made on the Group's oral liquid production facility.

As a result, the Group recorded net loss attributable to shareholders of RMB2.5 million for FY2017.

INDUSTRY OUTLOOK

The Beijing Municipal Commission of Health and Family Planning said on 28 January 2018 that Beijing saved about 6.7 billion yuan (US$1.06 billion) on medical expenses since the separation of clinic from pharmacy in April 2017. Since April 2017, more than 3,700 hospitals have eliminated the margins in sales on medication, according to the commission[1]. China is expected to spend between $150 billion and $180 billion on prescription medicine in 2021, but annual spending growth for medicines will fall to less than 7 percent over the next five years from about 14 percent over the prior five[2]. The business environment remains challenging and the Group's prescribed drugs will continue to face intense competition and pricing pressure.

BUILDING BRAND AWARENESS

Consumers' choice of pharmaceutical products are greatly influenced by brand awareness. Therefore, we will continue our brand building activities to capture new customers. In addition, we will continue to ensure high quality of our products to increase customer loyalty and retain our existing customer pool. Every year, we have been actively participating the National Drug Fair. It is a good platform for the Group to showcase our products to distributors, retailers, pharmacists and hospital officials. The Group has successfully expanded our customer pool with a total of 256 new customers in FY2017.

FOCUS ON RESEARCH AND DEVELOPMENT

Research and development is one of the Group's focus, as we aim to improve our existing products as well as innovate new products. In FY2017, we have successfully developed a new revised product, sugarless ErDing granules which has replaced the existing ErDing granules with sugar. Sugarless pharmaceutical products tend to be more popular with consumers as people are getting more health conscious and willing to pay for healthier choices. The switch to manufacturing sugarless ErDing granules has been completed successfully within a short time. We will continue to focus on research and development in order to provide greater value to the customers.

FURTHER PENETRATE NON-PRESCRIBED DRUGS MARKET

In 2017, China implemented a range of national policies and regulations aimed at tackling environmental concerns. Environmental regulatory changes have delayed the completion of our new manufacturing facility located at Jiangyou. It is schedule for completion by the end of FY2018. This new facility will enable the Group to expand its current production capacity and also to accommodate any potential new business operations. In view of the promising business environment in the non prescribed drugs industry, we plan to increase our production for non-prescribed drugs such as ErDing which treats jaundice and clearing heat and toxins. ErDing is well-received by the consumers and its demand is growing. The new manufacturing facility will expand the Group's production capacity greatly and allow the Group to gain greater market share in the non-prescribed drugs industry.

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board, we would like to welcome Mr. Qi Jie, who joined us as Chief Operating Officer and Executive Director on 31 December 2017. Next, we would also like to welcome Ms. Chung Chia-Jung, who joined us as a Non-Independent Non-Executive Director and a Member of Audit Committee on 15 December 2017.

On behalf of the Board, we would like to express our gratitude to the management team and the staff for their contributions and hard work. Next, the greatest

LETTER TO **SHAREHOLDERS**

thanks goes 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 beloved Board members for their counsel and contributions.

CHEW HENG CHING
Independent Non-Executive Chairman

WU XUEDAN
Chief Executive Officer and Executive Director

[1] Beijing saved 6.7 billion yuan on medical costs in 2017
http://en.nhfpc.gov.cn/2018-02/01/c_73026.htm

[2] Global prescription drug spend seen at $1.5 trillion in 2021: report
https://www.reuters.com/article/us-health-pharmaceuticals-spending/global-prescription-drug-spend-seen-at-1-5-trillion-in-2021-report-idUSKBN13V0CB

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2017年12月31日（2017财政年）的业绩及业务报告。

2017财政年对中国制药行业又是一个充满挑战的一年。政府实施的降价政策在过去几年一直拖累着制药行业。这个行业的商业环境仍然竞争非常激烈。各种因素导致我们在2017财政年取得净亏损，但与2016财政年相比，集团在2017财政年亏损减少并保持整体经营状况良好。

年度回顾

在2017财政年，集团的总营业收入为人民币6,970万元，同比去年增长1.3%。这主要是由于二丁颗粒需求增长带动非处方药销售，而处方药的销售则有所下降。2017财年的收入增长速度，有一部分受到现有产品停产准备制造新改良产品-无糖二丁的影响。无糖二丁将取代现有产品-有糖的二丁颗粒剂。

非处方药业务(尤其是二丁颗粒)的毛利率略有上升，毛利率从2016财政年的44.5%略微提高至2017财年的45.1%。

其他收入在2017财政年同比去年减少了20万元至人民币60万元，主要由于2017财政年外汇收益下降。

销售及分销成本于2017年财政年同比去年下跌1.4%至2,160万元，主要原因是销售部门的差旅费用减少。行政成本同比去年下降10.3%至人民币1,070万元，主要由于专业费用下降所致。2017财政年的其他费用为人民币30万元，主要源于集团口服液生产设施减值。

因此，集团于2017财政年应归本集团股权持有人的净亏损总计达到人民币250万元。

行业展望

北京市卫生和计划生育委员会于2018年1月28日表示，自2017年4月诊所与药房分离以来，北京医疗费用节省约人民币67亿元（10.6亿美元）。根据委员会的报告，自2017年4月以来，超过3,700家医院取消了药物销售的利润[1]。中国预计在2021年将在处方药方面花费约1,500亿至1,800亿美元，但药品的每年花费增长率在未来五年将下降到少于7%，比前五年的14%增长率下降[2]。处方药商业环境仍然充满挑战，集团的处方药将继续面临激烈的竞争和价格压力。

建立品牌知名度

品牌知名度对于顾客挑选医疗药物的影响根深蒂固。因此，我们将继续开展品牌建设活动以吸引新客户。此外，我们将继续确保产品高质量以提高客户忠诚度，并保留现有客户群。我们每年都积极参加全国药品展览销会，这是集团向分销商，零售商，药剂师和医院官员展示我们产品的良好平台。本集团于2017年财政年，成功扩充了客户总数，签下256名新客户。

主席及总裁献词

专注于研究与开发

研究与开发是集团的重点之一，我们致力于改善现有产品以及研发新产品。2017财政年，我们成功研发新改良的产品--无糖二丁颗粒。无糖二丁已取代现有的有糖二丁颗粒。随着人们越来越注重健康，无糖药品将更受消费者欢迎，消费者也愿意付出较高的价钱来购买较健康的产品，这将为集团带来更大的效益。制造无糖二丁颗粒的转换工作已在短时间内成功完成。我们将继续专注于研究和开发，为客户创造更大的价值。

加大力度发展非处方药

在2017年，中国实施了一系列旨在解决环境问题的国家政策和法规。环境监管变化推迟了位于江油的新生产设施的完工计划。新生产设施预计于2018年底完成。此新设施将使本集团扩大现有产能，并适应任何新业务运营。鉴于非处方药行业前景良好，我们计划增加我们正计划增加非处方药（如治疗黄疸及清热解毒的二丁）的生产。二丁受到消费者欢迎，其需求预计将大幅增长。新设施将大大的提高集团的产能，将使集团于非处方药品行业获得更多市场份额。

鸣谢

我们代表董事会对祁杰先生表示热烈欢迎，他于2017年12月31日加入本集团，担任运营总监兼执行董事。我们亦对鍾佳容女士表示热烈欢迎，她于2017年12月15日加入本集团，担任本集团非独立非执行董事及审核委员会成员。

过去一年，我们经历了各种挑战，是客户和合作伙伴的信任和支持，是公司董事和全体员工的智慧和勇气，共同支撑，我们取得稳定发展，在此致于诚挚的感谢。我们还必须感谢一路陪我们走过风雨的各位股东，感谢你们对我们的充分信任和支持，让我们在新的一年，携手前进，共创更好的一年！

周亨增
独立非执行主席

吴学丹
总裁兼执行董事

[1] Beijing saved 6.7 billion yuan on medical costs in 2017
http://en.nhfpc.gov.cn/2018-02/01/c_73026.htm

[2] Global prescription drug spend seen at $1.5 trillion in 2021: report
https://www.reuters.com/article/us-health-pharmaceuticals-spending/global-prescription-drug-spend-seen-at-1-5-trillion-in-2021-report-idUSKBN13V0CB

OPERATIONS & **FINANCIAL REVIEW**

Revenue

Despite the challenging business environment, the Group's FY 2017 revenue increased by RMB0.9 million or 1.3% from RMB68.8 million in FY 2016 to RMB69.7 million in FY 2017 mainly due to higher sales from non-prescribed drugs segment brought on by increasing demand for Er Ding granules. Overall, non-prescribed drugs/distribution segment increased by RMB2.8 million while prescribed drugs segment decreased by RMB1.9 million for FY 2017.

Gross profit margin increased slightly from 44.5% in FY 2016 to 45.1% in FY 2017. The increase was mainly due to the slight increase in margin of non-prescribed drugs segment, particularly for ErDing granules.

Other income decreased by RMB0.2 million to RMB0.6 million in FY 2017 mainly due to lower foreign exchange gain in FY2017.

Selling and distribution costs decreased by RMB0.3 million or 1.4% from RMB21.9 million in FY 2016 to RMB21.6 million in FY 2017 mainly due to lower travelling expenses incurred by sales department. Administrative costs decreased by RMB1.3 million or 10.3% from RMB12.0 million in FY 2016 to RMB10.7 million in FY 2017 mainly due to lower professional fees incurred. Other costs of RMB0.3 million for FY 2017 was due to impairment of RMB0.3 million made on the Group's oral liquid production facility as compared to RMB1.2 million in FY 2016.

Finance income decreased from RMB0.3 million in FY 2016 to RMB0.1 million in FY 2017, mainly due to lower interest income from cash and cash equivalents. Finance costs remained constant at RMB0.9 million in FY 2017 as compared to FY 2016.

Loss

As a result of the above factors, the Group recorded a net loss attributable to shareholders of RMB2.5 million for FY 2017 compared to a loss of RMB4.6 million for FY 2016.

Financial Position

The Group's non-current assets were RMB46.5 million as at 31 December 2017, an increase of RMB31.0 million from RMB15.5 million as at 31 December 2016. This was mainly due to increase of land use rights of RMB5.0 million and increase of construction-in-progress of RMB26.2 million arising from the acquisition of subsidiary, Jiangyou Neautus

OPERATIONS & **FINANCIAL REVIEW**

Traditional Chinese Medicine Technology Co. Ltd ("**Jiangyou**") and impairment of RMB0.3 million pertaining to the Group's oral liquid production facility.

The Group's current assets were RMB78.2 million as at 31 December 2017, a decrease of RMB30.0 million from RMB108.2 million as at 31 December 2016. This was mainly due to lower other receivables and cash & cash equivalents. Other receivables decreased mainly due to the decrease in loans to Jiangyou and payments for the acquisition of the shares of Jiangyou. Cash and cash equivalents decreased mainly due to the acquisition of Jiangyou.

The Group's current liabilities were RMB30.2 million as at 31 December 2017, an increase of RMB2.8 million from RMB27.4 million as at 31 December 2016 mainly due to higher accrued liabilities & other payables and lower trade payables and tax payable.

Cash Flow

The Group's net cash flow from operating activities of RMB2.7 million for the FY 2017 was mainly brought by its operating profit, changes in working capital and interest and income tax paid.

Net cash outflow from investing activities of RMB12.1 million was mainly due to net cash outflow on acquisition of subsidiary of RMB8.6 million, and capital expenditure mainly for acquisition of plant & machinery and construction in progress.

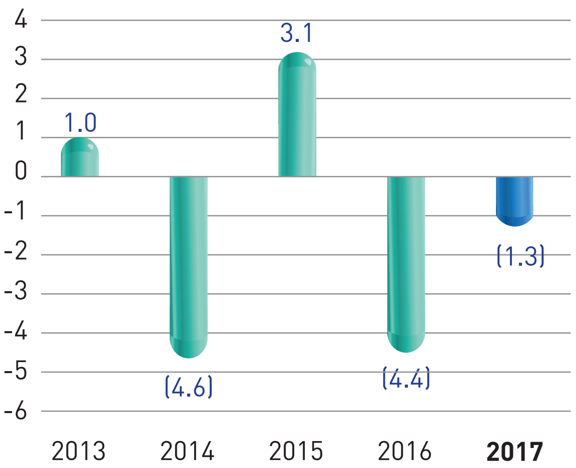
As at the end of 31 December 2017, the Group had a cash and cash equivalents of RMB35.5 million.

Shareholders' Funds

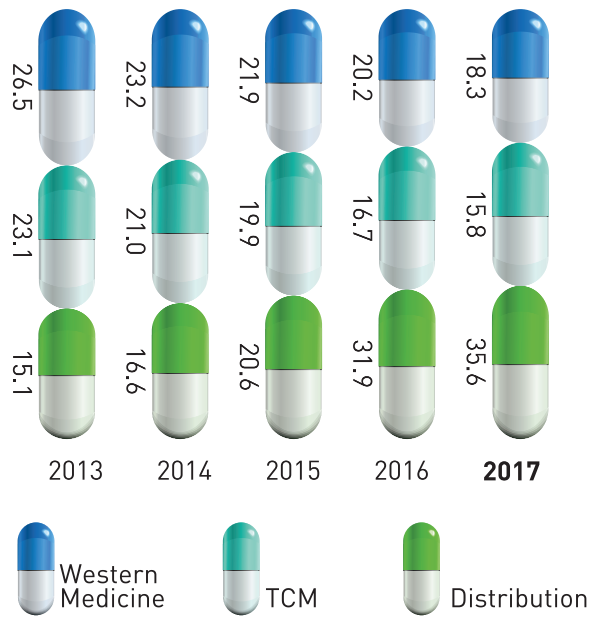
Shareholders' funds amounted to RMB89.0 million as at 31 December 2017. With Group's net loss attributable to equity holders at RMB2.5 million, net loss per share was RMB10.8 cents, compared with net loss per share of RMB20.2 cents a year before. Net asset value per share as at 31 December 2017 was RMB3.87.

FINANCIAL **HIGHLIGHTS**

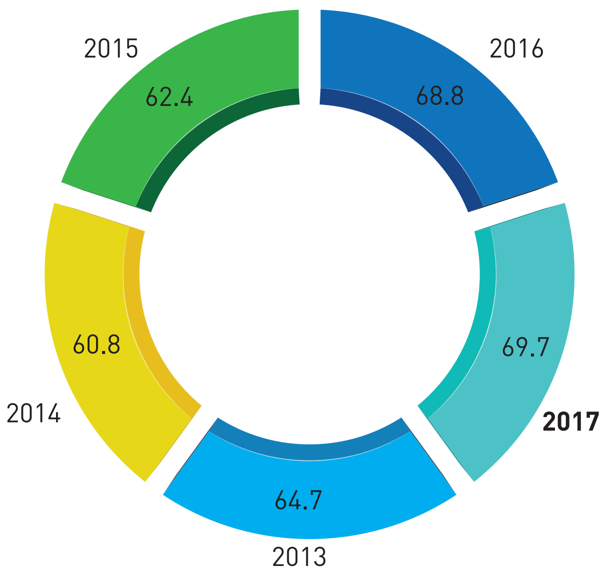
Profit/(Loss) Before Tax
(RMB Million)



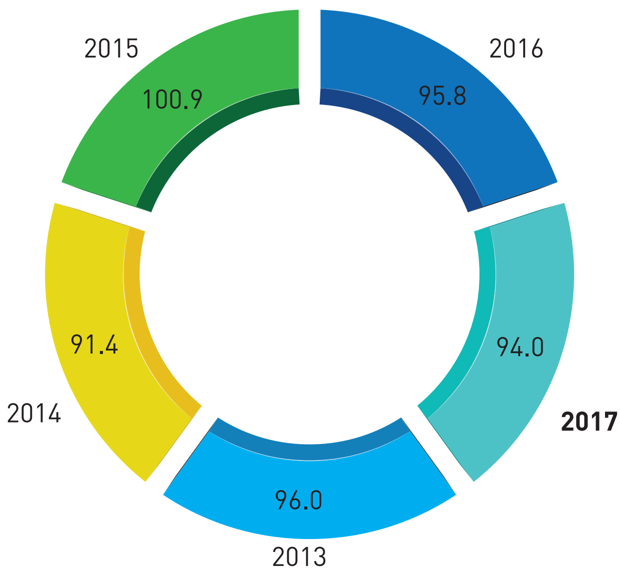
Revenue by Sector
(RMB Million)



Revenue
(RMB Million)



Equity
(RMB Million)



BOARD OF **DIRECTORS**

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.

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。

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**

Independent Non- Executive Director

Mr. Chew Thiam Keng has been an Independent Non-Executive Director since 25 August 2004. He was re-elected as a director on 28 April 2014.

Mr. Chew is currently the Chief Executive Officer of Ezion Holdings Limited. Prior to joining Ezion Holdings Limited, Mr. Chew was the Managing Director/CEO of KS Energy Services Limited for about five years and was the Executive Director of Kian Ann Engineering Ltd. between 1996 and November 2001. Before that, Mr. Chew was with The DBS Bank Ltd. for nine years working in the areas of banking such as corporate finance and retail banking.

Mr. Chew holds a Master Degree in Business Administration from the University of Hull and a Bachelor Degree (Honours) in Mechanical Engineering from the National University of Singapore.

独立兼非执行董事

周添庆先生自2004年8月25日担任独立兼非执行董事，随后在2014年4月28日继续连任。

周先生目前担任毅之安控股有限公司的总裁。在加入毅之安控股有限公司之前，他曾经在金声能源服务担任总裁长达5年，也在1996年至2001年11月间担任建安机械有限公司的执行董事。周先生曾在新加坡发展银行长达9年的时间，主要投身于企业融资和零售银行等银行服务。

周先生拥有赫尔大学工商管理硕士以及新加坡国立大学之机械工程学士荣誉学位。

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)
Chew Thiam Keng
(Independent Non-Executive Director)
Chung Chia-Jung
(Non-Independent Non-Executive Director)

AUDIT COMMITTE
Chew Heng Ching (Chairman)
Chew Thiam Keng
Chung Chia-Jung

NOMINATING COMMITTEE
Chew Heng Ching (Chairman)
Chew Thiam Keng
Wu Xuedan

REMUNERATION COMMITTEE
Chew Thiam Keng (Chairman)
Chew Heng Ching

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

CORPORATE GOVERNANCE STATEMENT **AND FINANCIAL CONTENTS**

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.

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	–
Mr. Qi Jie*	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	4	4	4	1	1	1	1
Ms. Chung Chia-Jung^	4	–	4	–	N.A.	N.A.	N.A.	N.A.
Mr. Jiang Yun@	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Jiang ErCheng#	4	4	4	4	N.A.	N.A.	N.A.	N.A.

* Appointed on 31 December 2017
^ Appointed on 15 December 2017
@ Resigned on 31 December 2017
# Resigned on 15 December 2017

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 directors, Mr. Qi Jie and Ms. Chung Chia-Jung upon their 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. Chew Thiam Keng	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 Thiam Keng ("Mr. Chew TK") and Mr. Chew Heng Ching ("Mr. Chew HC") were appointed as an Independent Director on 25 August 2004 and 9 November 2005 respectively and have served the Board for more than nine (9) years. The NC has conducted a rigorous review on Mr. Chew TK's and Mr. Chew HC's independence and together with the Board, considers them to be independent. Both Mr. Chew TK and Mr. Chew HC are independent in character and judgment and have no relationships or circumstances which are likely, or could appear to affect their 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.

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. Wu Xuedan*	CEO and Executive Director	(Member)

* Appointed on 31 December 2017

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;

(vii) recommend directors who are retiring by rotation to be put up for re-election;

CORPORATE GOVERNANCE **STATEMENT**

(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 and Audit Committee Member of Remuneration Committee	Present:– (i) Bonvests Holdings Limited (ii) Huan Hsin Holdings Ltd (iii) Stratech Systems Limited (iv) Sinopipe Holdings Limited (v) Spindex Industries Limited (vi) Ausgroup Limited Preceding three years:– Chosen Holdings Limited.
Mr. Chew Thiam Keng	Independent Director	25 August 2004	29 April 2016	Chairman of Remuneration Committee Member of Nominating Committee and member of Audit Committee	Present:– (i) Ezion Holdings Limited (ii) Charisma Energy Services Ltd
Mr. Wu Xuedan	Executive Director	16 April 2004	29 April 2016	Member of Nominating Committee	–
Mr. Qi Jie	Executive Director	31 December 2017	–	None	–
Ms. Chung Chia-Jung	Non-Independent Non-Executive Director	15 December 2017	–	Member of 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.

In accordance with the Company's Articles of Association, Mr. Qi Jie and Ms. Chung Chia-Jung are due for retirement by rotation under Article 97 and Mr. Chew Thiam Keng and Mr. Wu Xuedan are due for retirement by rotation under Article 91. However, the Board received the notice from Mr. Chew Thiam Keng that he does not wish to stand for re-election. Consequently, the NC recommended to the Board that Mr. Qi Jie, Ms. Chung Chia-Jung and Mr. Wu Xuedan be nominated for re-election at the coming 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. Chew Thiam Keng 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 Thiam Keng	Independent Non-Executive Director	(Chairman)
Mr. Chew Heng Ching	Independent Non-Executive Chairman	(Member)

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, 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.

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 56 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 2017 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. Jiang Yun ^	100	–	–	–	100
Mr. Wu Xuedan #	100	–	–	–	100
Mr. Chew Heng Ching	–	–	–	100	100
Mr. Chew Thiam Keng	–	–	–	100	100
Mr. Jiang Ercheng *	–	–	–	100	100

^ resigned on 31 December 2017
# Appointed as Chief Executive Officer on 31 December 2017
* resigned on 15 December 2017

(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 2017 has been approved by the shareholders at the AGM held on 26 April 2017.

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.

Remuneration of employee related to directors or substantial shareholders

Mr. Jiang Yun, the CEO and the Executive Director of the Company is the father of Mr. Jiang Ercheng who resigned as Non-Independent Non-Executive Director on 15 December 2017. Mr. Jiang Ercheng is also the shareholder of Emperor Wealth Holdings Limited, a substantial shareholder of the Company. Emperor Wealth Holdings Limited ceased to be a substantial shareholder of the Company on 29 November 2017.

CORPORATE GOVERNANCE **STATEMENT**

The following is the immediate family member of a Director, and whose remuneration exceeds S$50,000 during the financial year:–

Remuneration Bands	Relationship with director or CEO	Base Salary (%)	Variable Payment (%)	Other Benefits (%)	Total (%)
Below S$250,000					
Jiang Yun	Father of Jiang Ercheng	100	–	–	100

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.

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)
Ms. Chung Chia-Jung*	Non-Independent Non-Executive Director	(Member)

* Appointed on 15 December 2017

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$198,000, comprising of S$193,000 audit fee and S$5,000 non-audit fee. The non-audit fee is 3% 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.

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.

CORPORATE GOVERNANCE **STATEMENT**

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 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 2017 as the Company wishes to reserve the fund for the ongoing business/projects.

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.

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 following disclosures have been made in compliance with Rule 907 of the SGX-ST Listing Manual. The aggregate value of all interested person transactions (excluding any transactions less than S$100,000) during the financial year ended 31 December 2017 are as follows:–

Name of Interested Person(s)	Aggregate value of all Interested Person Transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all Interested Person Transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	RMB '000	RMB '000
Sichuan Neautus Traditional Chinese Medicine Co., Ltd – Purchase of raw materials from Sichuan Neautus	Nil	10,954

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 2017.

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 hereby 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 2017.

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 2017 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 (appointed on 31 December 2017)
Chew Heng Ching
Chew Thiam Keng
Chung Chia-Jung (appointed on 15 December 2017)

In accordance with Articles 91 and 97 of the Company's Articles of Association, Wu Xuedan retire, and Qi Jie and Chung Chia-Jung being eligible, offer themselves for appointment.

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.

4. Directors' interests in shares and debentures

The following directors, 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	–	–

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2018.

Except as disclosed in this report, 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 Thiam Keng and Chew Heng Ching, administers 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 are 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.

Details of outstanding options to subscribe for ordinary shares of the Company pursuant to the Pharmesis Share Option Scheme as at 31 December 2017 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 2017 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 exercised since commencement of plan to end of financial year*	Aggregate options outstanding as at end of financial year*
Chew Heng Ching	100,000	100,000	–	100,000
Chew Thiam Keng	100,000	100,000	–	100,000
Qi Jie	145,000	145,000	–	145,000
	345,000	345,000	–	345,000

* 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 report are as follows:

Chew Heng Ching	Chairman
Chew Thiam Keng	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

- 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
4 April 2018

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 2017, 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 Financial Reporting Standards in Singapore (FRSs) 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 2017 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.

Impairment assessment of goodwill, property, plant and equipment (PPE) and land use rights

As at 31 December 2017, the Group has goodwill of RMB 1,323,000 that is attributable to the Sichuan Longlife cash generating unit (CGU). At that date, the Group also has PPE and land use rights of RMB 11,077,000 and RMB 2,747,000 respectively which are used in three CGUs, namely Sichuan Longlife, Chengdu Kinna Western Drugs and its oral liquid production facility.

Management has performed annual impairment assessment on goodwill, and tested the aforementioned PPE and land use rights for impairment due to presence of impairment indicators. Based on their assessment, management has concluded that the goodwill at Sichuan Longlife is not impaired, while impairment charge of RMB 257,000 was recognised in respect of PPE.

Key audit matters (cont'd)

Impairment assessment of goodwill, property, plant and equipment (PPE) and land use rights (cont'd)

We considered management's impairment tests of goodwill, PPE and land use rights to be key audit matters because they involved management's subjective and complex judgments regarding future market and economic conditions, and results of the respective CGUs. Furthermore, significant judgment has been applied by management in determining the applicable discount rates used in the impairment tests.

As disclosed in Notes 9 and 12, the recoverable amounts of the CGUs have been determined based on fair value less cost of disposal and value in use calculations.

Value in use calculations use cash flow projections approved by management and apply the appropriate discount rates. The cash flow projections included key assumptions of the CGUs future revenues, profitability and related growth expectations. Our audit procedures included, amongst others:

- Checking that the cash flows were based on approved management budgets that reflected business plans, and evaluated management's forecasting process by comparing previous forecasts to actual results. We evaluated the assumptions used by comparing them to historical data as well as recent trends and market and economic outlooks of the respective CGUs.

- Evaluating the reasonableness of discount rates used to determine present values of the cash flows by considering the key inputs and risks of the respective cash flow projections, and making comparison to external observable data.

Fair value less cost of disposal calculation is estimated based on the depreciated replacement costs of the PPE. This is determined by making reference to published fixed assets price index of similar assets, and adjusted by Management for the relevant usage and obsolescence factors. Our audit procedures included, amongst others:

- Validating the published prices used against the aforementioned public source and evaluating the appropriateness of the adjustments made, and the overall reasonableness of the measurement considering the fair value measurement objective.

- Reviewing management's method of determining and allocating the estimated costs of disposal to each CGU, which makes reference to actual historical experiences relating to disposal of similar assets.

- Evaluating the accuracy and adequacy of the disclosures made on the impairment tests in Notes 9 and 12.

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

The Group's trade receivable balances amounted to RMB 21,506,000 and accounts for approximately 17% of the Group's total assets as at 31 December 2017. At that date, total allowance for impairment of trade receivables amounted to RMB 1,417,000. 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. Our audit procedures included, amongst others:

- Evaluating the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers.
- On a sample basis, obtaining trade receivable confirmations and evidence of receipts from the customers subsequent to the year end.
- Evaluating management's assumptions and estimates used to determine the trade receivables impairment amount through analyses of ageing of receivables, assessment of material overdue trade receivables and where applicable, review of customers' payment history and correspondences between the Group and the customers.
- Assessing the adequacy of the Group's disclosures on the trade receivables and the related risks such as credit risk and liquidity risk in Note 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.

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.

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.

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)

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
4 April 2018

CONSOLIDATED
INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(In Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	3	**69,727**	68,839
Cost of sales		**(38,265)**	(38,237)
Gross profit		**31,462**	30,602
Other income		**597**	799
Selling and distribution costs		**(21,616)**	(21,917)
Administrative costs		**(10,732)**	(11,964)
Other costs	4	**(257)**	(1,247)
Finance income	5	**134**	250
Finance costs	5	**(874)**	(875)
Loss before tax	6	**(1,286)**	(4,352)
Income tax expense	7	**(540)**	(699)
Loss for the year		**(1,826)**	(5,051)
Loss attributable to:			
Equity holders of the Company		**(2,477)**	(4,640)
Non-controlling interest		**651**	(411)
		(1,826)	(5,051)
Loss per share (cents)			
Basic and diluted	8	**(10.8)**	(20.2)

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 2017

(In Renminbi)

	2017 RMB'000	2016 RMB'000
Loss for the year	**(1,826)**	(5,051)
Other comprehensive income for the year, net of tax	**–**	–
Total comprehensive income for the year	**(1,826)**	(5,051)
Total comprehensive income attributable to:		
Equity holders of the Company	**(2,477)**	(4,640)
Non-controlling interest	**651**	(411)
	(1,826)	(5,051)

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

STATEMENTS OF
FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(In Renminbi)

	Note	Group 2017 RMB'000	Group 2016 RMB'000	Company 2017 RMB'000	Company 2016 RMB'000
Non-current assets					
Property, plant and equipment	9	**37,302**	11,338	**–**	3
Land use rights	10	**7,892**	2,849	**–**	–
Investment in subsidiaries	11	**–**	–	**54,999**	54,999
Goodwill on consolidation	12	**1,323**	1,323	**–**	–
		46,517	15,510	**54,999**	55,002
Current assets					
Inventories	13	**7,239**	7,167	**–**	–
Trade receivables	14	**21,506**	21,039	**–**	–
Prepaid expenses		**1,374**	436	**74**	73
Other receivables	15	**12,177**	34,352	**29**	3,895
Tax recoverable		**406**	328	**–**	–
Cash and cash equivalents	16	**35,485**	44,857	**6,651**	6,484
		78,187	108,179	**6,754**	10,452
Total assets		**124,704**	123,689	**61,753**	65,454
Current liabilities					
Bank borrowings	17	**15,000**	15,000	**–**	–
Trade payables	18	**1,907**	3,782	**–**	–
Accrued liabilities and other payables	19	**13,061**	8,176	**757**	764
Tax payable		**235**	404	**7**	11
		30,203	27,362	**764**	775
Net current assets		**47,984**	80,817	**5,990**	9,677
Non-current liabilities					
Deferred tax liabilities	20	**488**	488	**–**	–
Total liabilities		**30,691**	27,850	**764**	775
Net assets		**94,013**	95,839	**60,989**	64,679
Equity attributable to equity holders of the Company					
Share capital	21	**83,714**	83,714	**83,714**	83,714
Reserves		**5,335**	7,812	**(22,725)**	(19,035)
		89,049	91,526	**60,989**	64,679
Non-controlling interest		**4,964**	4,313	**–**	–
Total equity		**94,013**	95,839	**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 2017

(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							
At 1 January 2016	83,714	4,431	11,924	(3,903)	96,166	4,724	100,890
Net loss for the year, representing total comprehensive income for the year	–	–	–	(4,640)	(4,640)	(411)	(5,051)
At 31 December 2016	83,714	4,431	11,924	(8,543)	91,526	4,313	95,839
Net loss for the year, representing total comprehensive income for the year	–	–	–	(2,477)	(2,477)	651	(1,826)
At 31 December 2017	**83,714**	**4,431**	**11,924**	**(11,020)**	**89,049**	**4,964**	**94,013**

* Employee share options reserve represents the equity-settled share options granted to employees (Note 22). The reserve is 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 is 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 (2016: 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 2017

(In Renminbi)

	Share capital RMB'000	Employee share options reserve* RMB'000	Accumulated losses RMB'000	Total RMB'000
Company				
At 1 January 2016	83,714	4,431	(23,651)	64,494
Net profit for the year, representing total comprehensive income for the year	–	–	185	185
At 31 December 2016	83,714	4,431	(23,466)	64,679
Net loss for the year, representing total comprehensive income for the year	–	–	(3,690)	(3,690)
At 31 December 2017	**83,714**	**4,431**	**(27,156)**	**60,989**

* Employee share options reserve represents the equity-settled share options granted to employees (Note 22). The reserve is 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 is 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 2017

(In Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Loss before tax		**(1,286)**	(4,352)
Adjustments for:			
Amortisation of land use rights	6	**272**	101
Allowance/(reversal) of doubtful receivables – trade	6	**369**	(5)
Depreciation of property, plant and equipment	6	**1,396**	1,449
Impairment loss on property, plant and equipment	4	**257**	1,247
Reversal of stock obsolescence	6	**–**	(108)
Interest income	5	**(134)**	(250)
Interest expense	5	**874**	865
Operating profit/(loss) before working capital changes		**1,748**	(1,053)
Changes in working capital:			
(Increase)/decrease in trade receivables		**(836)**	37
Increase in inventories		**(72)**	(304)
Decrease/(increase) in prepaid expenses and other receivables		**356**	(32,618)
(Decrease)/increase in trade payables		**(1,875)**	852
Increase in accrued liabilities and other payables		**4,885**	2,589
Cash flows from/(used in) operations		**4,206**	(30,497)
Interest received		**134**	250
Interest paid		**(874)**	(865)
Income tax paid		**(787)**	(306)
Net cash flows from/(used in) operating activities		**2,679**	(31,418)
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	**(1,392)**	(868)
Acquisition of subsidiary	11	**(8,585)**	–
Acquisition of construction in progress	9	**(2,074)**	–
Net cash flows used in investing activities		**(12,051)**	(868)
Cash flows from financing activities			
Proceeds from bank borrowings	17	**15,000**	15,000
Repayment of bank borrowings	17	**(15,000)**	(15,000)
Net cash flows used in financing activities		**–**	–
Net decrease in cash and cash equivalents		**(9,372)**	(32,286)
Cash and cash equivalents at the beginning of the year	16	**44,857**	77,143
Cash and cash equivalents at the end of the year	16	**35,485**	44,857

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

(In Renminbi)

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.

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 ("FRS").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting polices 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.

Convergence with International Financial Reporting Standards

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Standards (International) ("SFRS(I)"), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). Other than the impact on adoption of the SFRS(I) 15, SFRS(I) 9 and SFRS(I) 16, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 15, SFRS(I) 9 and SFRS(I) 16 will be similar to the impact on adoption of FRS 115, FRS 109 and FRS 116 as disclosed in Note 2.3.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 Disclosure Initiative. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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 FRS 102 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to FRS 40 Transfers of Investment Property	1 January 2018
FRS 109 Financial Instruments	1 January 2018
FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 116 Leases	1 January 2019
Improvements to FRSs (December 2016)	
– Amendments to FRS 28 Investments in Associates and Joint Ventures	1 January 2018
INT FRS 122 Foreign Currency Transactions and Advance Consideration	1 January 2018
INT FRS 123 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to FRS 109 Prepayment Features with Negative Compensation	1 January 2019
Amendments to FRS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Improvements to FRSs (March 2018)	
– Amendments to FRS 103 Business Combinations	1 January 2019
– Amendments to FRS 111 Joint Arrangements	1 January 2019
– Amendments to FRS 12 Income Taxes	1 January 2019
– Amendments to FRS 23 Borrowing Costs	1 January 2019
Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined

As disclosed in Note 2.1, the Group will adopt SFRS(I) on 1 January 2018. Upon adoption of SFRS(I) on 1 January 2018, the SFRS(I) equivalent of the above standards that are effective on 1 January 2018 will be adopted at the same time.

Except for SFRS(I) 15, SFRS(I) 9 and SFRS(I) 16, the directors expect that the adoption of the SFRS(I) equivalent of the above standards 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) 15, SFRS(I) 9 and SFRS(I) 16 are described below.

<u>SFRS(I) 15 *Revenue from Contracts with Customers*</u>

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 new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of adopting SFRS(I) 15 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 15 in 2018.

Based on its preliminary assessment, the Group does not expect 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. The Group plans to adopt the standard when it becomes effective in 2018 using the full retrospective approach.

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

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

SFRS(I) 9 *Financial Instruments*

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting, and is effective for annual periods beginning on or after 1 January 2018. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in SFRS(I) 9 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group has performed a preliminary impact assessment of adopting SFRS(I) 9 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts SFRS(I) 9 in 2018.

(a) Classification and measurement

The Group's financial assets consist trade and other receivables and cash and cash equivalents. The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under SFRS(I) 9.

(b) Impairment

SFRS(I) 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group does not expect a significant adjustment to the impairment loss allowance.

The Group plans to adopt the standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.4 Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each 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.

Judgments 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 all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

An impairment exists when the carrying value of an asset or cash generating unit 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.

Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's trade receivables at the end of the reporting period is disclosed in Note 14 to the financial statements. If the present value of estimated future cash flows decrease by 3% from management's estimates, the Group's allowance for doubtful receivables will increase by RMB500,000 (2016: increase by RMB492,000).

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

2.4 Significant accounting judgments and estimates (cont'd)

Key sources of estimation uncertainty (cont'd)

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 income tax receivable, income tax payable, and deferred tax liabilities are RMB406,000 (2016: RMB328,000), RMB235,000 (2016: RMB404,000) and RMB488,000 (2016: RMB488,000) at 31 December 2017 respectively.

2.5 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 2017

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

2.5 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(a). 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)

2.5 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.

2.6 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 2017

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

2.7 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.

2.8 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.

2.9 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)

2.9 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.

(a) 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.

2.10 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 2017

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

2.11 Financial instruments

(a) Financial assets

Financial assets 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 assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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 has been recognised directly in other comprehensive income is recognised in the income statement.

(b) Financial liabilities

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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

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

2.12 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the income statement.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statement.

2.13 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.

2.14 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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.14 Inventories (cont'd)

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.

2.15 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.

2.16 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.

2.17 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.

2.18 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.

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

2.19 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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.20 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.

2.21 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, net of value-added tax, after allowance for returns, trade discounts and various types of business tax and government surcharges where applicable. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Rendering of services*

Revenue from the packaging of oral liquid products is recognised by the number of completed packaged products. Where the outcome cannot be measured reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

(c) *Interest income*

Interest income is recognised using the effective interest method.

2.22 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.

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

2.22 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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

2.22 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.

2.23 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 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.24 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.

2.25 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.

3. Revenue

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of business tax and government surcharges where applicable.

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Sale of goods	**69,515**	68,659
Service income	**212**	180
	69,727	68,839

4. Other costs

		Group	
	Note	**2017**	**2016**
		RMB'000	**RMB'000**
Impairment loss on property, plant and equipment	9	**257**	1,247

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

5. Finance income/Finance costs

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
(i) Finance income		
– Interest income	**134**	250
(ii) Finance costs		
- Interest expense	**(873)**	(865)
- Bank charges	**(1)**	(10)
	(874)	(875)

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

6. Loss before tax

The following items have been included in arriving at (loss)/profit before tax:

		Group	
	Note	**2017**	**2016**
		RMB'000	**RMB'000**
Amortisation of land use rights	10	**272**	101
Depreciation of property, plant and equipment	9	**1,396**	1,449
Audit fees paid to auditors of the Company		**441**	429
Audit fees paid to affiliates of auditors of the Company		**550**	728
Non-audit fees paid to auditors of the Company		**28**	32
Personnel expenses*		**26,035**	26,360
Allowance/(reversal) of doubtful receivables – trade	14	**369**	(5)
Foreign exchange gain		**(54)**	(337)
Government grants		**(543)**	(451)
Legal and professional fees		**153**	951
Research and development expenses		**142**	355
Reversal of stock obsolescence	13	**–**	(108)

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Wages, salaries and bonuses	**24,038**	24,525
Pension contributions	**1,317**	1,217
Others	**680**	618
	26,035	26,360

Included in personnel expenses are directors' remuneration and directors' fees of RMB1,686,000 and RMB783,000 respectively (2016: RMB1,655,000 and RMB722,000 respectively).

7. Income tax expense

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Current tax		
– current year	**540**	400
– prior year	**–**	299
Income tax expense recognised in income statement	**540**	699

The reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable tax rate for the year ended 31 December was as follows:

Loss before tax	**(1,286)**	(4,352)
Tax at domestic rates applicable to (loss)/profit in the countries where the Group operates	**228**	(714)
Adjustments:		
Non-deductible expenses	**531**	882
Deferred tax assets not recognised	**–**	300
Benefit of previously unrecognised deductible temporary differences	**(132)**	(51)
Effect of partial tax exemption and tax relief	**(2)**	(2)
Under-provision for income tax in prior years	**–**	299
Others	**(85)**	(15)
Income tax expense recognised in the income statement	**540**	699

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. and Sichuan Longlife Pharmaceutical Co., Ltd do not qualify for the reduced corporate income tax rate of 15% granted under Announcement 15 as at 31 December 2017.

At the balance sheet date, the subsidiaries in PRC have tax losses and temporary differences of RMB189,000 and RMB10,371,000 (2016: 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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8. Loss per share

Loss per share amounts 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.

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 losses and share data used in the computation of basic and diluted loss per share for the years ended 31 December:

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Loss for the year attributable to equity holders of the Company used in computation of basic and diluted loss per share	**(2,477)**	(4,640)

	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	
	2017	**2016**
	RMB	**RMB**
	Cents	Cents
Loss per share		
– basic and diluted	(10.8)	(20.2)

(1) As at 31 December 2017, the Company has outstanding share options granted to directors and employees of 1,020,000 (2016: 1,020,000). Since the exercisable price of these share options is above the quoted market price of the Company's shares for the financial years, the options are non-dilutive. As such, the options have no dilution effect on the loss per share of the Group for the financial years.

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:							
At 1 January 2016	26,231	2,968	19,577	5,258	1,610	–	55,644
Additions	106	–	561	161	40	–	868
Disposal	–	–	–	(156)	–	–	(156)
At 31 December 2016 and 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
At 31 December 2017	26,337	2,968	21,336	5,361	1,746	26,225	83,973
Accumulated depreciation and impairment loss:							
At 1 January 2016	17,928	2,968	16,781	3,399	1,402	–	42,478
Charge for the year	499	–	528	309	113	–	1,449
Disposal	–	–	–	(156)	–	–	(156)
Impairment loss	584	–	663	–	–	–	1,247
At 31 December 2016 and 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
At 31 December 2017	19,608	2,968	18,638	3,860	1,597	–	46,671
Net carrying amount:							
At 31 December 2017	6,729	–	2,698	1,501	149	26,225	37,302
At 31 December 2016	7,326	–	2,166	1,711	135	–	11,338

At 31 December 2017, buildings of the Group with carrying amounts of RMB4,086,000 (2016: RMB4,286,000) are pledged as security to secure bank borrowings (see Note 17).

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

	Other equipment RMB'000
Company	
Cost:	
At 1 January and 31 December 2016, and 1 January and 31 December 2017	245
Accumulated depreciation:	
At 1 January 2016	215
Charge for the year	27
At 31 December 2016 and 1 January 2017	242
Charge for the year	3
At 31 December 2017	245
Net carrying amount:	
At 31 December 2017	–
At 31 December 2016	3

Impairment of asset

During the financial year, 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 (2016: RMB1,247,000), representing the write-down of this facility to the recoverable amount was recognised in "Other costs" (Note 4) line item of the 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.

10. Land use rights

	Group 2017 RMB'000	Group 2016 RMB'000
Cost:		
At 1 January	**4,191**	4,191
Arising from acquisition of subsidiary (Note 11)	**5,315**	–
At 31 December	**9,506**	4,191
Accumulated amortisation:		
At 1 January	**1,342**	1,241
Amortisation for the year	**272**	101
At 31 December	**1,614**	1,342
Net carrying amount	**7,892**	2,849
Amount to be amortised:		
– Not later than one year	**272**	101
– Later than one year but not later than five years	**1,088**	404
– Later than five years	**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 25.7 and 32.5 years (2016: 26.7 and 33.5 years). The Group has 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 will reside. It is currently under construction. Its land use rights is not transferable and has a remaining tenure of 34.8 years.

At 31 December 2017, land use rights of the Group with carrying amounts of RMB2,056,000 (2016: RMB2,136,000) are pledged as security to secure bank borrowings (Note 17).

Land use rights amounting to RMB2,056,000 have been allocated to the cash generating unit Sichuan Longlife Pharmaceutical Co., Ltd ("Sichuan Longlife") and RMB691,000 to Chengdu Kinna Western Drugs ("Kinna") for impairment testing. The impairment assessment for Sichuan Longlife is disclosed in Note 12.

11. Investment in subsidiaries

	Company 2017 RMB'000	Company 2016 RMB'000
Unquoted equity shares, at cost	**50,016**	50,016
Investment via issuance of share options to employees of subsidiaries	**4,983**	4,983
At 31 December	**54,999**	54,999

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

11. Investment in subsidiaries (cont'd)

(a) Composition of the Group

	Name (Country of incorporation and place of business)	Principal activities	Proportion (%) of ownership interest 2017 %	2016 %
	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
	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
+	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
+	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**	–

\+ Audited by Ernst & Young Hua Ming, Chengdu Branch, for consolidation purpose.

(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 %	(Loss)/profit allocated to NCI during the reporting period RMB'000	Accumulated NCI at the end of reporting period RMB'000
31 December 2017:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	651	4,964
31 December 2016:				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	(411)	4,313

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 subsidiary with material non-controlling interests are as follows:

Summarised balance sheet

	Sichuan Longlife Pharmaceutical Co., Ltd	
	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Current		
Assets	**26,770**	27,779
Liabilities	**(23,576)**	(25,381)
Net current assets	**3,194**	2,398
Non-current		
Assets	**8,805**	8,274
Net non-current assets	**8,805**	8,274
Net assets	**11,999**	10,672

Summarised statement of comprehensive income

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2017 RMB'000	2016 RMB'000
Revenue	**45,489**	42,022
Profit/(loss) before income tax	**1,635**	(541)
Income tax expense	**(308)**	(297)
Profit/(loss) after tax	**1,327**	(838)
Other comprehensive income	**–**	–
Total comprehensive income	**1,327**	(838)

Other summarised information

	Sichuan Longlife Pharmaceutical Co., Ltd	
	2017 RMB'000	2016 RMB'000
Net cash flows from/(used in) operating activities	**2,195**	(343)
Net cash flows used in investing activities	**(1,500)**	(370)
Net cash flows used in financing activities (Dividends to NCI: nil)	**(1,544)**	(1,517)
Net decrease in cash and cash equivalents	**(849)**	(2,230)

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

11. Investment in subsidiaries (cont'd)

(d) Acquisition of subsidiary

In January 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 on acquisition RMB'000
Cash and cash equivalents	46
Land use rights (Note 10)	5,315
Construction-in-progress (Note 9)	24,151
	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	
	2017 RMB'000	**2016 RMB'000**
Goodwill on consolidation – Sichuan Longlife	**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	
	2017	**2016**
Growth rates	**3%**	3%
Pre-tax discount rates	**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.

12. Goodwill on consolidation (cont'd)

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 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.

13. Inventories

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Statement of financial position:		
Raw materials	**3,904**	2,975
Work in progress	**2,063**	2,799
Finished goods	**1,272**	1,393
At 31 December	**7,239**	7,167
Income statement:		
Inventories recognised as an expense in cost of sales	**27,935**	28,824
Inclusive of the following credit:		
– Reversal of stock obsolescence	**–**	(108)

The reversal of write-down of inventories was made when the related inventories were sold above their carrying amounts in 2016.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

14. Trade receivables

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Trade receivables		
– 3rd party	**16,695**	16,405
– Related party	**–**	–
Less: Allowance for doubtful receivables	**(1,417)**	(1,048)
	15,278	15,357
Note receivables	**6,228**	5,682
	21,506	21,039

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. The receivables are denominated in RMB.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RMB2,814,000 (2016: RMB2,326,000) 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.

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Trade receivables past due:		
60 days and less	**796**	1,225
61 – 120 days	**741**	464
121 – 180 days	**450**	284
More than 181 days	**827**	353
	2,814	2,326

14. Trade receivables (cont'd)

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	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
Trade receivables – nominal amounts	**4,231**	3,374	**–**	–
Less: Allowance for doubtful receivables	**(1,417)**	(1,048)	**–**	–
	2,814	2,326	**–**	–

Movement in allowance accounts:

	Collectively impaired		Individually impaired	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 1 January	**1,048**	1,053	**–**	–
Allowance/(reversal) for the year	**369**	(5)	**–**	–
Written off	**–**	–	**–**	–
At 31 December	**1,417**	1,048	**–**	–

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.

15. Other receivables

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables – nominal amounts	**12,237**	34,412	**29**	3,895
Less: Allowance for doubtful receivables	**(60)**	(60)	**–**	–
	12,177	34,352	**29**	3,895

Analysis of allowance for doubtful receivables is as follows:

At 1 January	60	60	–	–
Allowance for the year	–	–	–	–
At 31 December	60	60	–	–

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

15. Other receivables (cont'd)

As at 31 December 2017, other receivables include an advance payment of RMB6,973,000 (2016, RMB6,973,000) for the acquisition of two properties to Chengdu Kinna Investment Co., Ltd. As at 31 December 2016, other receivables also include an advance payment of RMB4,316,000 for the acquisition of a company to Sichuan Neautus Traditional Chinese Medicine Co., Ltd as well as a loan of RMB21,268,000 to Sichuan Kinna, which was acquired in January 2017.

Included in the other receivables of the Group and the Company is an amount of RMB29,000 (2016: RMB29,000) which is denominated in Singapore dollar.

16. Cash and cash equivalents

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Cash at banks and on hand	**30,538**	40,014	**1,704**	1,641
Short-term deposit	**4,947**	4,843	**4,947**	4,843
Cash and cash equivalents	**35,485**	44,857	**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% (2016: 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 2017 was 0.95% (2016: 0.95%) per annum.

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows:

	Group and Company	
	2017 RMB'000	2016 RMB'000
Singapore dollar	**5,007**	4,697
United States dollar	**134**	143

17. Bank borrowings

	Maturity	Group	
		2017 RMB'000	2016 RMB'000
Current:			
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

The interest rate for the RMB bank loans ranges from 5.0% to 6.0% (2016: 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).

18. Trade payables

	Group 2017 RMB'000	Group 2016 RMB'000
Trade payables		
– 3rd party	**1,907**	2,438
– Related party	**–**	1,344
	1,907	3,782

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

19. Accrued liabilities and other payables

	Group 2017 RMB'000	Group 2016 RMB'000	Company 2017 RMB'000	Company 2016 RMB'000
Accruals	**1,409**	1,169	**745**	699
Other payables	**9,851**	5,043	**12**	65
VAT payable	**875**	1,374	**–**	–
Advances from customers	**926**	590	**–**	–
	13,061	8,176	**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 accrued liabilities and other payables of the Group and the Company is an amount of RMB757,000 (2016: 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 balance sheet date, RMB488,000 (2016: 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 2017 Number of shares	Group and Company 2017 RMB'000	Group and Company 2016 Number of shares	Group and Company 2016 RMB'000
Issued and fully paid ordinary shares:				
At 1 January	**23,000,000**	**83,714**	23,000,000	83,714
At 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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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.

Movement of share options during the financial year

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

	2017 Number of share options	2016 Number of share options
Outstanding as at 1 January and 31 December	**1,020,000**	1,020,000
Exercisable at 31 December	**1,020,000**	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 RMB0.43 (2016: RMB0.43).

The fair value of options granted charged to the income statement during the financial year was RMB nil (2016: 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. Commitments

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 RMB428,000 (2016: RMB375,000).

23. Commitments (cont'd)

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	**438**	286	**73**	28
In the second to fifth year	**924**	952	**127**	–
More than five years	**587**	689	**–**	–
	1,949	1,927	**200**	28

24. Related party disclosures

(a) Compensation of key management personnel

	Group	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**3,477**	3,363
Central Provident Fund contributions	**68**	78
	3,545	3,441
Comprise amounts paid to:		
Directors of the Company		
– Directors' remuneration	**1,686**	1,655
– Directors' fees	**783**	722
Other key management personnel	**1,076**	1,064
	3,545	3,441

(b) Directors' interests in employee share option plan

At the balance sheet date, the total number of outstanding share options granted by the Company to the directors under the ESOS amounted to 345,000 (2016: 200,000).

(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	
		2017	2016
	Note	RMB'000	RMB'000
Companies related to directors			
– Rendering of services	(i)	**212**	180
– Purchase of raw materials	(ii)	**(10,954)**	(12,379)
– Rental expense	(iii)	**(120)**	(120)

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

24. Related party disclosures (cont'd)

Companies related to directors:

(i) The Group has entered into a contract with Ningxia Cai Qi Biological Technology Co., Ltd ("Ningxia"), a company in which Jiang Ercheng, an ex-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 at the end of the reporting period.

Ningxia ceased to be a related party of the Group as at 15 December 2017 as Jiang Ercheng resigned as director of the Group on the same date.

(ii) The Group has entered into a contract with Sichuan Neautus Traditional Chinese Medicine Co., Ltd ("Sichuan"), a company in which Jiang Yun, an ex-director of the Company, has 29.8% equity interest. The scope of the contract is for the Group to purchase raw materials from Sichuan during the year. Balances outstanding are disclosed in Note 18 to the financial statements.

(iii) The Group has made rental payments to Sichuan during the year. Balances outstanding are disclosed in Note 15 to the financial statements.

Sichuan ceased to be a related party of the Group as at 31 December 2017 as Jiang Yun resigned as director of the Group 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.

(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 deposits, prepaid expenses, other receivables and accrued liabilities and other payables. 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 (loss)/profit before tax by RMB575,000 (2016: RMB556,000). 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.

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

(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.

Exposure to credit risk

At the balance sheet date, 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:

- 60% (2016: 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.

(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.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

(iii) Liquidity risk (cont'd)

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	
	Note	**2017 RMB'000**	**2016 RMB'000**
Group			
Financial assets			
Trade receivables	14	**21,506**	21,039
Other receivables	15	**12,177**	34,352
Cash and cash equivalents	16	**35,485**	44,857
Total undiscounted financial assets		**69,168**	100,248
Financial liabilities			
Bank borrowing		**15,073**	15,073
Trade and accrued liabilities and other payables (excluding VAT payable and advances from customers)		**13,167**	9,994
Total undiscounted financial liabilities		**28,240**	25,067
Total net undiscounted financial assets		**40,928**	75,181

		1 year or less	
	Note	**2017 RMB'000**	**2016 RMB'000**
Company			
Financial assets			
Other receivables	15	**29**	3,895
Cash and cash equivalents	16	**6,651**	6,484
Total undiscounted financial assets		**6,680**	10,379
Financial liabilities			
Accrued liabilities and other payables	19	**757**	764
Total undiscounted financial liabilities		**757**	764
Total net undiscounted financial assets		**5,923**	9,615

26. Financial instruments

The table below is an analysis of the carrying amounts of financial instruments by categories as defined in FRS 39 as at 31 December:

	Note	Group 2017 RMB'000	Group 2016 RMB'000	Company 2017 RMB'000	Company 2016 RMB'000
Loans and receivables					
Trade receivables	14	**21,506**	21,039	**–**	–
Other receivables	15	**12,177**	34,352	**29**	3,895
Cash and cash equivalents	16	**35,485**	44,857	**6,651**	6,484
		69,168	100,248	**6,680**	10,379
Financial liabilities carried at amortised cost					
Bank borrowings	17	**15,000**	15,000	**–**	–
Trade payables	18	**1,907**	3,782	**–**	–
Accrued liabilities and other payables (excluding VAT payable and advances from customers)		**11,260**	6,212	**757**	764
		28,167	24,994	**757**	764

Financial instruments whose carrying amount approximate fair value

The carrying amounts of trade and other receivables, cash and cash equivalents, trade and accrued liabilities and other payables, and bank borrowings approximate their fair values due to their short-term nature.

27. Fair value of assets and liabilities

(a) 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.

(b) 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

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

27. Fair value of assets and liabilities (cont'd)

(b) Assets and liabilities measured at fair value (cont'd)

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

The following table shows the impact on the fair value measurement that are sensitive to changes in unobservable inputs that reflect reasonably possible alternative assumptions. The positive and negative effects are approximately the same.

		Effect of reasonably possible alternative assumptions	
	Carrying amount RMB'000	Profit or loss RMB'000	Other comprehensive income RMB'000
31 December 2017			
Property, plant and equipment			
– Oral liquid production facility	1,150	290	–

In order to determine the effect of the above reasonably possible alternative assumptions, the Group adjusted the residual ratio by increasing and decreasing the assumptions by 5%.

28. 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 2017 and 2016.

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 2017 and 2016.

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 2017, the Group's gearing ratio is zero (2016: zero) as the Group's cash and cash equivalents exceed its outstanding borrowings.

29. Segment information

	Western drugs		TCM formulated drugs		Distribution		Eliminations		Group	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue										
External sales	**18,274**	20,174	**15,798**	16,748	**35,655**	31,917	**–**	–	**69,727**	68,839
Inter segment sales	**1,447**	551	**29,587**	25,274	**–**	–	**(31,034)**	(25,825)	**–**	–
Total revenue	**19,721**	20,725	**45,385**	42,022	**35,655**	31,917	**(31,034)**	(25,825)	**69,727**	68,839
Result										
Segment result	**57**	(899)	**2,259**	312	**827**	1,571			**3,143**	984
Unallocated corporate expenses									**(3,689)**	(4,711)
Loss from operations									**(546)**	(3,727)
Finance income	**91**	204	**3**	4	**40**	42			**134**	250
Finance costs	**–**	(11)	**(873)**	(857)	**(1)**	(7)			**(874)**	(875)
Income tax expense	**–**	–	**(308)**	(297)	**(232)**	(402)			**(540)**	(699)
Net loss before non-controlling interest									**(1,826)**	(5,051)
Non-controlling interest									**(651)**	411
Net loss									**(2,477)**	(4,640)
Assets and liabilities										
Segment assets	**46,686**	72,789	**65,419**	36,053	**5,767**	8,259			**117,872**	117,101
Unallocated corporate assets									**6,832**	6,588
Total assets									**124,704**	123,689
Segment liabilities	**3,762**	2,833	**24,721**	22,981	**1,365**	1,261			**29,848**	27,075
Unallocated corporate liabilities									**843**	775
Total liabilities									**30,691**	27,850
Other segment information										
Capital expenditure	**199**	431	**3,239**	432	**28**	5			**3,466**	868
Depreciation and amortisation	**845**	920	**806**	592	**17**	38			**1,668**	1,550
Interest income	**(91)**	(204)	**(3)**	(4)	**(40)**	(42)			**(134)**	(250)
Interest expense	**–**	11	**872**	847	**1**	7			**873**	865
Allowance for/(reversal of) doubtful receivables – trade	**253**	110	**31**	(5)	**85**	(110)			**369**	(5)
(Reversal)/allowance for stock obsolescence	**–**	–	**–**	(108)	**–**	–			**–**	(108)
Impairment loss on property, plant and equipment	**257**	1,247	**–**	–	**–**	–			**257**	1,247

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

29. Segment information (cont'd)

Note

A: Capital expenditure consists of purchase of property, plant and equipment.

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	
	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	4,631	4,925	–	–	–	–
Customer B	4,541	4,790	–	–	–	–
Customer C	–	–	2,024	1,729	–	–
Customer D	–	–	1,943	1,638	–	–
Customer E	–	–	–	–	5,308	4,468
Customer F	–	–	–	–	4,899	3,726
	9,172	9,715	3,967	8,194	10,207	8,194

30. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 4 April 2018.

STATISTICS OF **SHAREHOLDINGS**

AS AT 16 MARCH 2018

Issued and fully paid-up capital	:	S$17,025,532.94
Total no. of issued shares	:	23,000,000
Class of shares	:	Ordinary share
Voting rights	:	one vote per share

THE COMPANY DOES NOT HAVE ANY TREASURY SHARE

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	2	0.22	22	0.00
100 – 1,000	402	43.41	249,500	1.09
1,001 – 10,000	444	47.95	1,525,970	6.63
10,001 – 1,000,000	73	7.88	4,401,628	19.14
1,000,001 AND ABOVE	5	0.54	16,822,880	73.14
TOTAL	**926**	**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	1,537,880	6.69
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	LONG BIAO	251,200	1.09
10	PHILLIP SECURITIES PTE LTD	237,300	1.03
11	ZHAO JIE	157,100	0.68
12	OCBC SECURITIES PRIVATE LIMITED	141,590	0.62
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	LEE CHAY GIAM JOEL	77,650	0.34
17	CHEN BEI	71,400	0.31
18	DBS NOMINEES (PRIVATE) LIMITED	66,000	0.29
19	THE WING ON INVESTMENT COMPANY (S) PTE LTD	60,000	0.26
20	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	57,900	0.25
	TOTAL	**19,833,218**	**86.23**

STATISTICS OF **SHAREHOLDINGS**

AS AT 16 MARCH 2018

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 16 March 2018

	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..

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 16 March 2018, 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 14th 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, 27 April 2018 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 2017 together with the Auditors' Report thereon.

   (Resolution 1)

2. To re-elect Mr Wu Xuedan, a Director retiring pursuant to Article 91 of the Company's Articles of Association.

   (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.)

3. To re-elect the following Directors retiring pursuant to Article 97 of the Company's Articles of Association:

   Ms Chung Chia-Jung **(Resolution 3)**
   [See Explanatory Note (i)]

   (Ms Chung Chia-Jung will, upon re-election as a Director of the Company, remain as a member of the Audit Committee.)

   Mr Qi Jie **(Resolution 4)**
   [See Explanatory Note (i)]

4. To note the retirement of Mr Chew Thiam Keng, a Director retiring pursuant to Article 91 of the Company's Articles of Association.

   (Mr Chew Thiam Keng will retire from office by rotation at the AGM and having given notice in writing to the Company that he does not wish to be re-elected, will not stand for re-election. Consequently, Mr Chew Thiam Keng will cease to be the Chairman of the Remuneration Committee and members of the Audit and Nominating Committees.)

5. To approve the payment of Directors' fees of SGD 160,000 (equivalent to approximately RMB800,000) for the financial year ending 31 December 2018 be paid quarterly in advance.

   (Resolution 5)

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

   (Resolution 6)

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

AS SPECIAL BUSINESS

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

8. **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, 12 April 2018

Explanatory Notes:

(i) The detailed information of Mr Wu Xuedan, Ms Chung Chia-Jung and Mr Qi Jie 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.

Ms Chung Chia-Jung is the Non-Independent Non-Executive Director and substantial shareholder of the Company. Save as disclosed above, Ms Chung Chia-Jung has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

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

(ii) **Ordinary Resolution 7** proposed in item 8 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.

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.

This page has been intentionally left blank

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 12 April 2018.

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 27 April 2018 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 2017		
2.	To re-elect Mr Wu Xuedan, who is retiring under Article 91 of the Company's Articles of Association		
3.	To re-elect Ms Chung Chia-Jung, who is retiring under Article 97 of the Company's Articles of Association		
4.	To re-elect Mr Qi Jie, 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 ____________________ 2018

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 inapplicable**

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:

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 12 April 2018.

This page has been intentionally left blank

This page has been intentionally left blank

PHARMESIS

PHARMESIS INTERNATIONAL LTD.

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