



PHARMESIS

PHARMESIS INTERNATIONAL LTD.



# EXPANDING OUR PRESENCE

ANNUAL REPORT 2016

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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 “古蔺肝苏” 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 “古蔺肝苏” 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)

茵三硫

#### 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:

清热解毒、利湿退黄。用于热疗痈毒、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:**  
清热解毒、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**  
连蒲双清

**Usage:**  
Treatment of acute inflammation such as dysentery and intestinal infection

**Form:**  
Tablets

**功能主治:**  
清热解毒、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

# **WE ARE EXPANDING OUR PRESENCE TO FURTHER PENETRATE THE NON-PRESCRIBED DRUGS MARKET AND INCREASE OUR MARKET SHARE.**

### **DEAR SHAREHOLDERS,**

On behalf of our Board of Directors, we are pleased to present our annual report for the financial year ended December 31, 2016 ("FY2016").

FY2016 was not a smooth sailing year for us. The price bidding system which was introduced by the Chinese government has greatly affected the prescribed drugs industry in China. The bid price of the drug should be lower than the maximum retail price set by National Reimbursement Drug List (NRDL) and this has further exerted downward pressure on the price of drugs. The business environment in this industry is getting more competitive. The above factors resulted in us reporting a net loss but the Group continues to maintain its healthy operating condition.

### **YEAR IN REVIEW**

In financial year 2016, the Group registered a total revenue of RMB68.8 million, representing a growth of 10.3%. 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.

Due to higher raw materials costs and higher percentage contribution from low margin non-prescribed drugs/distribution segment, particularly for ErDing granules, gross profit margin decreased from 53.4% for FY2015 to 44.5% for FY2016.

Other income decreased by RMB1.8 million year-on-year ("yoy") mainly due to government grant of RMB0.5 million in FY2016 and a relocation compensation of RMB 2.0 million and a RMB 0.3 million gain on sale of held for trading investment securities in FY2015.

Selling and distribution costs increased by 4.4% yoy to RMB21.9 million for FY2016 due to higher corresponding sales. Administrative costs increased by 3.3% yoy to RMB12.0 million for FY2016 largely due to higher professional fees incurred. Other costs of RMB 1.2 million for FY 2016 pertained to impairment made on the Group's oral liquid production facility.

As a result, the Group recorded net loss attributable to shareholders of RMB4.6 million for FY2016.

### **BUILDING BRAND AWARENESS**

We believe that brand awareness is an ongoing effort that every company should work on over time. Market competition is not solely about price, but also about quality. Therefore, we will continue to ensure high quality of our products and endeavour to build our brand to stay at the forefront of the industry.

The National Drug Fair, the oldest fair of its kind serves as a platform for us to have direct contact with the buyers. In view of this, we have participated in the two National Drug Fairs held this year to showcase our products to the buyers. Leveraging on the high quality of our products, the Group has successfully signed a total of 178 new customers in FY2016.

### **COMMITTED TO RESEARCH AND DEVELOPMENT**

We have been conducting research and development on pharmaceutical products for liver and digestive system related conditions for the past 11 years. According to World Health Organization, an estimated 90 million people in China have chronic hepatitis B (HBV) and 10 million people have chronic hepatitis C (HCV). It is estimated that about 10 million people in China would die each year from

hepatitis-related complications by 2030<sup>1</sup>. In view of this, we are working on the development of an improved version of ATT tablets. The improvements in the bioavailability of the ATT tablets will enable the body to absorb the drug faster. Moving ahead, we remain committed to launch 2 to 3 new or improved products every year in order to provide greater value to the customers.

### **FURTHER PENETRATE NON-PRESCRIBED DRUGS MARKET**

The Group will acquire two units with a floor area of about 918.02 sq m on the sixth storey of a building under construction located at Jinniu District, Chengdu, Sichuan Province. The Group plans to utilise these two properties as a non-manufacturing industrial and auxiliary facility to expand its operations. The tentative purchase consideration for these two units is approximately RMB6.97 million.

The Group will also acquire an industrial complex which is currently under construction at Jiangyou Municipality with a consideration of RMB8.6 million. The construction of the industrial complex which comprises four buildings with a total gross floor area of 10,369 sq.m. will be completed and operational by the end of 2017.

The rationale of the acquisition of the industrial complex is to enable Pharmesis to expand its current production capacity and also to accommodate any potential new business operations, as the Group is currently unable to increase the production capacity of its present factory in China due to regulatory restrictions. The size and location of the industrial complex is suitable for the Group's operations. With the industrial complex, the Group can continually serve our customers' requirements efficiently.

In view of the competitive business environment in the prescribed drugs industry, we are planning 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 the demand for it is expected to grow tremendously. Our current plant in Guilin which produces ErDing has reached its maximum production capacity of approximately 5 million

boxes. This new manufacturing facility will expand the Group's production capacity of ErDing by approximately 15 million boxes per year. This would allow the Group to gain greater market share in the non-prescribed drugs industry.

### **INDUSTRY OUTLOOK**

The business environment remains challenging and the Group's prescribed drugs will continue to face intense competition and pricing pressure given the highly competitive and regulated nature of China's pharmaceutical industry.

However, the pharmaceutical industry in China is developing very rapidly with the growing middle class and aging population is driving increased higher quality health care. The 13<sup>th</sup> Five Year Plan also places significant emphasis on health care system by promoting the idea of a "Healthy China 2030"<sup>2</sup>. This is the first health plan to be initiated by the highest levels of the central government (the previous Healthy China 2020 plan was initiated by MOH). The plan aims to promote healthy lifestyles, improve health services, optimize health industries and build a medical system that can provide basic health and exercise services to every citizen by 2020<sup>2</sup>.

Health care spending in China is estimated to hit US\$1 trillion by 2020 from US\$357 billion in 2011<sup>3</sup>. This would boost greater demand for pharmaceutical industry and eventually translate into huge business opportunities to the pharmaceutical players.



## LETTER TO **SHAREHOLDERS**

The government also stated their intention to provide support to mergers and acquisitions in the pharmaceutical industry. In view of this, the consolidation of the fragmented pharmaceutical market will be accelerated and less competitive players will be eliminated from the market. In addition, the government would also increase investment for the research and development of traditional Chinese medicine ("TCM") and introduce favourable policy to support the TCM industry<sup>4</sup>.

The Strategic Development Plan for TCM (2016-2030) which was issued by State of Council highlighted the basic principle and main task of developing TCM<sup>5</sup>. TCM is also listed as a national strategy, marking another milestone for the development of TCM. This would boost the development of TCM in China and provide greater opportunities to the TCM manufacturers.

### **APPRECIATION AND ACKNOWLEDGEMENT**

On behalf of the Board, we would like to express its gratitude and appreciation to Dr. Pu Weidong, our Independent Director for his invaluable contribution to the Company during his tenure of services. We would also like to welcome Mr. Jiang Ercheng, who joined us as a Non-Independent Non-Executive Director and a Member of Audit Committee on 1 July 2016. Next, we would like to express our appreciation to Ms. Tee Siaw Yean for her invaluable contribution during her tenure as the Financial Controller of the Group. We would like to use this opportunity to extend a warm welcome to Mr. Liang Chan Hoe, who assumed the Financial Controller role on 1 June 2016. Mr. Liang, a Chartered Accountant of Singapore, has more than 13 years working experience in accounting and financial management positions. We are confident that Mr. Liang will be able to lend his expertise in contributing towards shaping the Group.

On behalf of the Board, we would like to take this opportunity to express our sincere gratitude to the employees for their contributions and hard work throughout the year as well as customers and suppliers for their continued support. We would also like to thank our Board members for their counsel and contributions. Last but not least, we must thank our shareholders for their confidence and support. Let's work hand in hand to overcome the challenges ahead and strive for greater heights!

**CHEW HENG CHING**  
*Non-Executive Chairman*

**JIANG YUN**  
*Chief Executive Officer*

<sup>1</sup> Up to 10 million people in China could die from chronic hepatitis by 2030,  
<http://www.wpro.who.int/china/mediacentre/releases/2016/20160727-china-world-hepatitis-day/en/>

<sup>2</sup> Healthy China 2030 plan implemented,  
[http://en.nhfpc.gov.cn/2016-10/27/c\\_70464.htm](http://en.nhfpc.gov.cn/2016-10/27/c_70464.htm)

<sup>3</sup> In China, when the going gets tough, the tough go local,  
<http://www.bioworld.com/content/china-when-going-gets-tough-tough-go-local-0>

<sup>4</sup> China to consolidate drug market, promote traditional medicines,  
<http://www.businesstimes.com.sg/government-economy/china-to-consolidate-drug-market-promote-traditional-medicines>

<sup>5</sup> National strategic plan issued, new highlight of TCM services planned at CIFTIS,  
<http://en.ciftis.org/index.php/index-view-aid-8888.html>

# 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2016年12月31日(2016财政年)的业绩及业务报告。

2016财政年对公司来说并非一帆风顺的一年。中国出台的公立医院药品集中采购制度对中国药品行业产生了重大影响。药品的投标价格应低于国家医保目录所设定的最高零售价，这进一步给药品价格施加了压力，使药品价格不断下降，从而使业内竞争越来越激烈。然而，尽管我们面对这充满挑战的环境，虽然呈现亏损，但是我们在优秀领导团队带领下齐心协力顺利完成全年的各项生产经营任务，整体经营状况良好。

### 年度回顾

在2016财政年，集团的总营业收入为人民币6,880万元，同比增长10.3%。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。

由于原材料成本增加、非处方药(尤其是二丁颗粒)虽具有较高的营运贡献但利润较低，集团的毛利率从2015财政年的53.4%降至2016财政年的44.5%。

在其他收入方面2016财政年集团获得政府补贴人民币50万元，但是由于2015财政年集团获得搬迁赔偿人民币200万及销售持作交易投资证券获得的收益人民币30万元，所以相应的今年的其他收入同比去年减少人民币180万元。

销售和分销成本同比增长4.4%至2016财政年的人民币2,190万元，主要是由于营业收入增长所致。行政费用同比增长3.3%至2016财政年的人民币1,200万元，主要是由于产生更高的专业费用所致。2016财

政年的其他费用为人民币120万元，主要源于集团口服液生产设施减值。

因此，集团于2016财政年应归本集团股权持有人的净亏损总计达到人民币460万元。

### 建立品牌知名度

我们认为建立品牌知名度是每间公司不断努力追求的目标，市场竞争不仅是产品价格的竞争，更重要的是品质，我们会保证质量，不断加强品牌建设，保持领先地位。国家药品展销会是全国同类展会中开办时间最长的展会之一，该展会为我们与客户直接接触提供了平台。我们积极参加了于本年度举办的两届国家药品展销会，藉此机会向大量客户展示我们的产品。凭藉我们产品的高品质，集团在2016财政年成功签下178名新客户，成功扩展我们的分销渠道。

### 专注于研究与开发

过去11年里，我们一直在进行有关肝脏和消化系统相关疾病的药品研发。根据世界卫生组织的资料，中国目前估计有9千万人患有B型肝炎和有1千万人患有C型肝炎。预计在2030<sup>1</sup>年前，中国每年将会有大约1千万人死于与肝炎有关的病症。有鉴于此，我们继续研发及改良茵三硫药品。茵三硫药品生物药效率的改善可使身体更快地吸收药物。我们将继续致力于每年推出2到3种新产品或改进产品，为客户提供更大的价值。

### 加大力度发展非处方药

集团购置位于四川省成都市金牛区的一栋在建楼宇六楼的两个建筑面积约918.02平方米的房间。本集团计划将这两项物业用作非制造工业的辅助设施，以扩展其业务。这两套房的暂定购买代价约为人民币697万元。

# 主席及总裁献词

集团也收购位于江油工业园区目前正在建设中的一处工业综合体，代价为人民币860万元。该工业综合体包括总建筑面积10,369平方米的四幢楼宇，将于2017年年底完工并投入运营。

收购该工业综合体的理由是为集团扩大其当前的产能，并为潜在的新业务运营提供场地，从而解决集团目前由于监管限制而无法提高中国现有工厂产能的问题。工业综合体的面积和位置适合本集团的业务。凭藉工业综合体，本集团可持续高效地满足客户需求。

考虑到处方药行业竞争激烈的商业环境，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。二丁受到消费者的欢迎，其需求预计将大幅增长。目前集团位于古蔺的生产二丁的工厂已达其最大产能约500万盒。这一幢新的制造工厂将使得本集团的二丁产能每年扩大约1,500万盒。这将使本集团于非处方药品行业获得更多市场份额。

## 行业展望

由于中国制药行业竞争激烈且受到严格监管，本集团的处方药物将继续面临激烈的竞争及价格压力，业务环境仍充满挑战。

然而，随着中产阶级的增长，中国的制药行业正在快速发展，人口老龄化亦推动着高品质医疗保健的增长。「十三五」规划亦强调了「健康中国2030」<sup>1</sup>的理念，高度重视医疗保健系统的建设。这是将由中央政府最高领导层发起的首个健康计划（先前的健康中国2020规划乃由卫生部发起）。该计划旨在促进健康生活方式、改善卫生服务、优化卫生工业以及建立一个到2020<sup>2</sup>年能为每位公民提供基本的健康及锻炼服务的医疗系统。

到2020年，预计中国的医疗卫生支出将从2011<sup>3</sup>年的3,570亿美元增长至1万亿美元。这将大力增加对制药行业的需求，为制药企业迎来新的契机。

政府亦有意为制药业的并购提供支持，因此整合分散的医药市场的步伐将会加快，竞争力较弱的参与者将会被市场淘汰。此外，政府也将增加对中药研发的投资，并推出支持中药行业发展的优惠政策<sup>4</sup>。

国务院出台的「中药战略发展规划（2016至2030年）」<sup>5</sup>强调了发展中药的基本原则及主要任务。中药亦被列为一项国家级战略，标识着中药发展历程中的又一里程碑。这将推动中药在中国的发展，为中药制造商提供更多机会。

## 鸣谢

我们代表董事会对独立董事濮卫东博士于其任期内为本公司作出的宝贵贡献表示衷心感谢。我们亦谨此对江尔成先生表示热烈欢迎，他于2016年7月1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。此外，我们亦要对郑筱燕女士于其任期内作为本集团财务总监作出的宝贵贡献表示衷心感谢。同时，我们亦藉此机会对梁振豪先生表示欢迎，他于2016年6月1日起担任财务总监一职。梁振豪先生是一名新加坡注册会计师，在会计和财务管理职位上有超过13年的工作经验。我们相信，梁先生能够利用他的专长为集团贡献。

在这充满挑战的一年，我们要对全体员工的辛勤工作表示衷心感谢，对客户及供应商的长期支持表示由衷感激。我们还必须感谢各位股东给予我们的信任和支持，还要感谢各位董事们的群策群力。

最后我们期待在新的一年里我们携手努力，克服前路困难，勇攀高峰！

## 周亨增

非执行主席

## 江云

总裁

<sup>1</sup> Up to 10 million people in China could die from chronic hepatitis by 2030, <http://www.wpro.who.int/china/mediacentre/releases/2016/20160727-china-world-hepatitis-day/en/>

<sup>2</sup> Healthy China 2030 plan implemented, [http://en.nhfpc.gov.cn/2016-10/27/c\\_70464.htm](http://en.nhfpc.gov.cn/2016-10/27/c_70464.htm)

<sup>3</sup> In China, when the going gets tough, the tough go local, <http://www.bioworld.com/content/china-when-going-gets-tough-tough-go-local-0>

<sup>4</sup> China to consolidate drug market, promote traditional medicines, <http://www.businesstimes.com.sg/government-economy/china-to-consolidate-drug-market-promote-traditional-medicines>

<sup>5</sup> National strategic plan issued, new highlight of TCM services planned at CIFTIS, <http://en.ciftis.org/index.php/index-view-aid-8888.html>

## OPERATIONS & FINANCIAL REVIEW



### REVENUE

Despite the challenging business environment, the Group's revenue increased by RMB6.4 million from RMB62.4 million for FY2015 to RMB68.8 million for FY2016 mainly attributable to higher sales from non-prescribed drugs segment brought on by increasing demand for ErDing granules. Overall, non-prescribed drugs/distribution segment increased by RMB8.1 million while prescribed drugs segment decreased by RMB 1.7 million for FY2016.

Gross profit margin decreased from 53.4% in FY2015 to 44.5% in FY2016. The decrease was due to higher raw materials costs and higher percentage contribution from low margin non-prescribed drugs/distribution segment, particularly for ErDing granules.

Other income decreased by RMB1.8 million to RMB0.8 million in FY2016 mainly due to government grant of RMB0.5 million in FY2016 and a relocation compensation of RMB2.0 million and a RMB0.3 million gain on sale of held for trading investment securities in FY2015.

### EXPENSES

Selling and distribution costs increased by 4.4% yoy to RMB21.9 million for FY2016 due to higher corresponding sales. Administrative costs increased by 3.3% yoy to RMB12.0 million for FY2016 largely due to higher professional fees incurred. Other costs of RMB 1.2 million for FY 2016 pertained to impairment made on the Group's oral liquid production facility.

Furthermore, finance income declined by 78.5% yoy for FY2016 mainly attributable to the absence of interest income from structured deposits after it had matured in March 2015. On the other hand, finance costs decreased by RMB0.08 million to RMB0.9 million for FY2016 primarily due to lower interest rates.

### LOSS

As a result of the above factors, the Group recorded net loss attributable to shareholders of RMB4.6 million for FY2016 compared to a net profit of RMB2.4 million for FY2015.

### FINANCIAL POSITION

The Group's non-current assets were RMB15.5 million as at 31 December 2016, a decrease of RMB1.9 million from RMB17.4 million as at 31 December 2015. This was mainly due to capital expenditure of RMB0.9 million, offset by depreciation of the Group's property, plant and equipment and amortisation of its land use rights totalling RMB1.6 million and impairment of RMB1.2 million pertaining to the Group's oral liquid production facility.

The Group's current assets were RMB108.2 million as at 31 December 2016, an increase of RMB0.7 million from RMB107.5 million as at 31 December 2015. This was mainly due to higher inventories, higher other receivables offset by lower cash and cash equivalents. Inventories increased mainly due to higher level of work-in-progress for ErDing

## OPERATIONS & FINANCIAL REVIEW

granules in anticipation of the continued strong market demand. Other receivables increased to RMB34.4 million mainly due to loans to Jiangyou Neautus Traditional Chinese Medicine Technology Co. Ltd. ('Jiangyou Neautus', the company to be acquired as 100% wholly owned subsidiary in FY2017), and payments for the acquisition of the shares of Jiangyou Neautus and Ying Bin property. Cash and cash equivalents decreased mainly due to payments made in relation to the increase in other receivables.

The Group's current liabilities were RMB27.4 million as at 31 December 2016, an increase of RMB3.9 million from RMB23.5 million as at 31 December 2015 mainly due to higher trade payables, other payables and tax payable.

### CASH FLOW

The Group's net cash flow used in operating activities of RMB31.4 million for FY2016 was mainly brought by its operating loss and payments made in relation to the acquisition of the shares of Jiangyou Neautus and Ying Bin property resulting in the increase in other receivables.

Net cash outflow from investing activities of RMB0.9 million was mainly due to capital expenditure mainly for acquisition of plant & machinery.

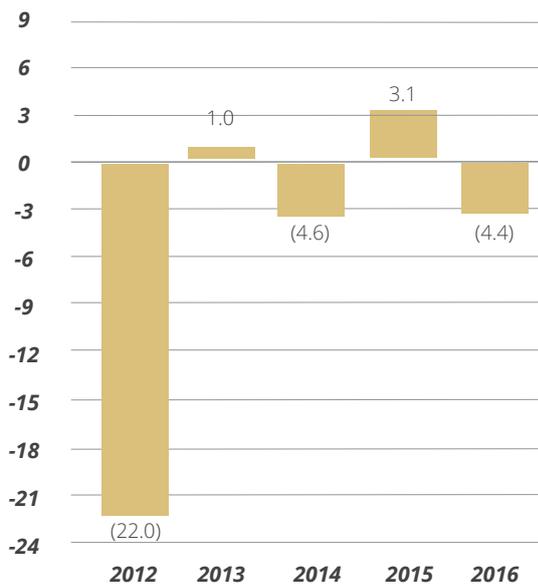
As at the end of 31 December 2016, the Group had cash and cash equivalents of RMB44.9 million.

### SHAREHOLDERS' FUNDS

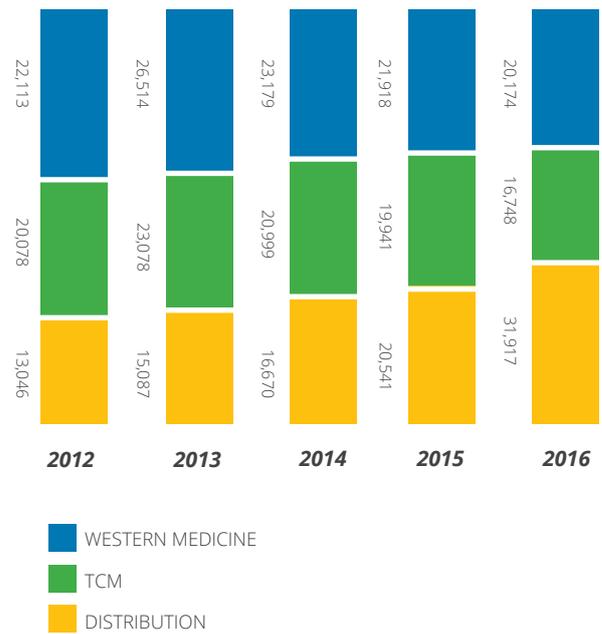
Shareholders' funds amounted to RMB91.5 million as at 31 December 2016. With Group's net loss attributable to equity holders at RMB4.6 million, net loss per share was RMB20.2 cents, compared with net profit per share of RMB11.8 cents a year before. Net asset value per share as at 31 December 2016 was RMB3.98.

# FINANCIAL HIGHLIGHTS

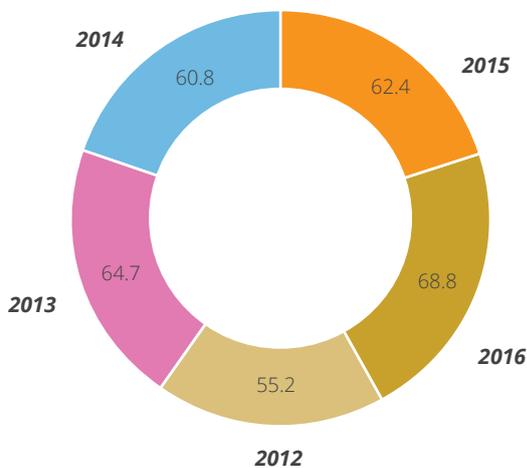
**Profit/(Loss) Before Tax**  
(RMB Million)



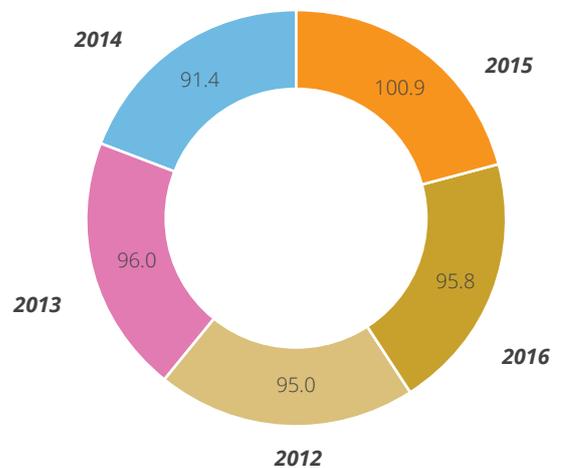
**Revenue By Sector**  
(RMB Thousand)



**Revenue**  
(RMB Million)



**Equity**  
(RMB Million)



## BOARD OF **DIRECTORS**



**MR. JIANG YUN**  
*Chief Executive Officer and  
Executive Director*

江云  
总裁兼  
执行董事

Previously the CEO and Executive Chairman of our Group, Mr. Jiang Yun has been re-appointed as the Group's Executive Chairman on 15 January 2015. Mr. Jiang has relinquished his position as the Chairman of the Company and he has been re-designated to Chief Executive Officer of the Company on 1 July 2016.

Mr. Jiang Yun is responsible for the stewardship and guidance of the Group in its developments and future plans. Mr. Jiang Yun brings with him a wealth of experience in the management of pharmaceutical businesses. He worked at Sichuan Pharmaceuticals Co., Ltd. as Chief of Quality Control before founding Chengdu Kinna. He also spearheaded the construction of PRC's first traditional Chinese medicinal herbs GMP (Good Manufacturing Practice)-certified plant.

Mr Jiang Yun holds a Masters degree in Medicinal Chemistry from West China University of Medical Sciences. He is a visiting scholar at Stanford University. Currently, he is also a committee member at the Chinese Pharmacopoeia Commission.

江云先生曾担任本集团的执行主席。于2015年1月15日，再次被委任为集团执行主席。江先生自公司主席的职位卸任后，并于2016年7月1日被委任为总裁。江云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。

江云先生拥有丰富的医药领域企业管理经验。曾任职中国国营四川制药厂，后创办国嘉制药，并主持了中国第一个中药饮片GMP工厂的建设。

江云先生拥有华西医科大学药学硕士学位，是美国斯坦福大学访问学者。目前，他还担任中国国家药典委员会委员。



**MR. WU XUEDAN**  
*Executive Director*

吴学丹  
执行董事

Mr. Wu Xuedan has been an Executive Director since 16 April 2004. He was appointed as our Chief Executive Officer on 5 January 2009. Mr Wu Xuedan relinquished his position as Chief Executive Officer and remains as Executive Director of the Company on 1 July 2016. Mr. Wu has years of experience in the pharmaceutical industry.

Mr. Wu 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.

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，随后在2009年1月5日受委任总裁。吴先生自公司总裁的职位卸任后，并于2016年7月1日继续担任执行董事。他在生物医药领域上拥有丰富的经验。

吴先生负责监督集团的管理、营运、研究和发展方针等事项。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。



**MR. CHEW HENG CHING**

*Non-Executive Chairman and  
Independent Director*

周亨增  
非执行主席兼  
独立董事

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.

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。他是新加坡国际商会的前主席，目前依然是该会成员。他也担任过新加坡工商联合总会的理事会成员。

在公共服务方面，周先生从1984年至2006年担任国会议员，也曾担任国会副议长。他目前在许多慈善机构的董事局里服务。

身为一名科伦坡计划奖学金得主，周先生获得工业工程（一等荣誉）以及经济学位。他也同时拥有工程荣誉博士学位。他目前是新加坡董事学会以及澳大利亚注册会计师学会的成员。

## BOARD OF DIRECTORS



**MR. CHEW THIAM KENG**

*Independent Non-Executive Director*

周添庆  
独立兼非执行董事

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.

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学位。



**MR. JIANG ERCHENG**

*Non-Independent Non-Executive Director*

江尔成  
非独立兼非执行董事

Mr. Jiang Ercheng was appointed as Non-Independent Non-Executive Director of our Company on 1 July 2016. Mr Jiang is currently the General Manager and Director of Chengdu Kinna Investment Co Ltd. Mr. Jiang graduated from University of California, Los Angeles with a Bachelor Degree in Biochemistry in 2013. He is also a visiting scholar at Stanford University.

江尔成先生在2016年7月1日受委任为公司的非独立兼非执行董事。江先生目前担任中国成都国嘉投资股份有限公司的董事兼经理。江尔成先生在2013年毕业于美国加州大学洛杉矶分校生物化学专科。他也是美国斯坦福大学访问学者。

# CORPORATE GOVERNANCE STATEMENT AND FINANCIAL CONTENTS

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# CORPORATE GOVERNANCE STATEMENT

Pharmesis International Ltd. (the “Company”) and its Management are committed to maintaining a high standard of corporate governance to safeguard the interest of all its stakeholders and complying with the principles and guidelines set out in the new Code of Corporate Governance 2012 (the “Code”) which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited (“SGX-ST”)’s Listing Manual. This report outlines the Company’s corporate governance practices throughout the financial year with specific reference to the Code issued by the Monetary Authority of Singapore (MAS) on 02 May 2012.

## BOARD MATTERS

### Principle 1: Board’s Conduct of its Affairs

The Board’s primary role is to protect shareholders’ interests and enhance long-term shareholders’ value. It sets the overall strategy for the Company and its subsidiaries (the “Group”) and supervises the management. To fulfill this role, the Board is responsible for setting the strategic direction for the Group, establishing goals for management and monitoring the achievement of these goals.

Apart from its statutory responsibilities, the Board’s principal functions include the following:-

- (i) approve annual reports, periodic financial announcements and accounts;
- (ii) ensure management leadership of high quality, effectiveness and integrity;
- (iii) appoint key personnel;
- (iv) review financial performance and implement financial policies which incorporate risk management, internal controls and reporting compliance; and
- (v) assume responsibility for corporate governance framework of the Company.

To assist in the execution of its responsibilities, the Board is supported by a number of committees which include a Nominating Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

The Group has adopted and documented internal guideline setting for the matters that require Board approved. Matters which are specifically reserved for decision of the full Board include:-

- (I) approve the Group’s corporate and strategic directions;
- (II) approve annual budgets, investment and divestment proposals;
- (III) material acquisition and disposal of assets;
- (IV) capital-related matters including financial re-structure, market fund-raising; share issuance, interim dividend and other returns to shareholder; and
- (v) convening of general meetings.

The Board meets at least four (4) times a year to oversee the business affairs of the Group and approve any financial or business strategies or objectives. Where necessary, additional Board meetings and committee meetings are held to deliberate on urgent substantive matters. Telephonic attendance and conference via audio communication at Board meetings are allowed under the Company’s Articles of Association.

# CORPORATE GOVERNANCE STATEMENT

The details of the number of Board and Board Committees meetings held during the financial year and the attendance of each Board member at those meetings are disclosed as follows:

Name	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr. Jiang Yun	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Wu Xuedan	4	3	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
Mr. Jiang Ercheng *	4	2	4	2	1	-	N.A.	N.A.
Dr. Pu Weidong #	4	1	4	1	1	1	1	1

\*Appointed on 1 July 2016

# Resigned on 1 July 2016

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 any newly appointed directors, upon his appointment during the financial year, explaining among other matters, the roles, obligations, duties and responsibilities as a member of the Board. In addition, the Board is provided with regular updates with respect to new laws, rules, regulations, listing requirement, governance practices and other regulations in order to adapt to the changing commercial risks relating to the business and operations of the Group.

## Principle 2: Board Composition and Guidance

The Board comprises 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. Jiang Yun	Chief Executive Officer and Executive Director
Mr. Wu Xuedan	Executive Director
Mr. Chew Heng Ching	Non-Executive Chairman and Independent Director
Mr. Chew Thiam Keng	Independent Non-Executive Director
Mr. Jiang Ercheng	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.

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.

# CORPORATE GOVERNANCE STATEMENT

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. 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. During the financial year, in consonance with the Company's commitment to the Code, Mr Jiang Yun has been re-designated from Executive Chairman to CEO and Mr Chew Heng Ching has been re-designated from Lead Independent Director to Non-Executive Chairman. 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	Non-Executive Chairman and Independent Director	(Chairman)
Mr. Chew Thiam Keng	Independent Non-Executive Director	(Member)
Mr. Jiang Yun	CEO and Executive Director	(Member)

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;
- (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.

# CORPORATE GOVERNANCE STATEMENT

Board members' other 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	30 April 2015	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:- i) Lee Kim Tah Holdings Limited; ii) 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  Preceding three years:- i) Multi-Chem Limited
Mr. Jiang Yun	Executive Director	15 January 2015	30 April 2015	Member of Nominating Committee	-
Mr. Wu Xuedan	Executive Director	16 April 2004	29 April 2016	None	-
Mr. Jiang Ercheng	Non-Independent Non-Executive Director	1 July 2016	-	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.

The NC has recommended to the Board that Mr. Jiang Ercheng is due for retirement by rotation under Article 97 and Mr. Chew Heng Ching and Mr. Jiang Yun who are due for retirement by rotation under Article 91 be nominated for re-election at the forthcoming AGM. In making its recommendation, the NC evaluates such directors' contribution and performance, such as their attendance at meetings of the Board and Board Committees, where applicable, candour and any special contributions. As part of the appointment and re-appointment process, the NC will also consider whether a director with multiple board representations is able to carry out, and has been devoting sufficient time to adequately carry out his duties as a Director of the Company, with regard to the director's number of listed company board representations and other principal commitments.

The Board does not prescribe a maximum limit on the number of listed company board representations a director may hold, as the Board believes that a director can only determine by himself the number of board representations he can manage and the more appropriate measure is the ability of such Director to contribute effectively and demonstrate commitment to his role, including commitment of sufficient time and attention to the Group's business and affairs.

The NC is also responsible for determining annually, the independence of directors. In its annual review, the NC, having considered the guidelines set out in the Code, has confirmed the Non-Executive Directors namely, Mr. Chew Heng Ching and Mr. 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 Director	(Member)
Mr. Jiang Ercheng (resigned on 1 March 2017)	Non-Independent Non-Executive Director	(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 key management personnel (who are not directors or CEO) is approximately S\$16,000. Details of the said benefits can be found on pages 51 and 52 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.

# CORPORATE GOVERNANCE STATEMENT

A list of each Non-Executive and the Executive Director's remuneration paid during the financial year ended 31 December 2016 is shown below:

Remuneration Band and Name of Director	Base Salary <sup>(a)</sup> %	Variable Payment <sup>(b)</sup> %	Other Benefits <sup>(c)</sup> %	Directors' Fee <sup>(d)</sup> %	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
Dr. Pu Weidong #	-	-	-	100	100

\*Appointed on 1 July 2016

# Resigned on 1 July 2016

- (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 2016 has been approved by the shareholders at the AGM held on 29 April 2016.

## 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. To maintain confidentiality of staff remuneration and to prevent poaching of key management personnel, the Company has not disclosed the aggregate remuneration paid to the only key management personnel of the Company in this report.

## 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 is the Non-Independent Non-Executive Director as well as the shareholder of Emperor Wealth Holdings Limited, a substantial shareholder of the Company.

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 (%)
<b>Below S\$250,000</b>					
Jiang Yun	Father of Jiang Ercheng	100	-	-	100

# CORPORATE GOVERNANCE STATEMENT

## 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 Director	(Chairman)
Mr. Chew Thiam Keng	Independent Non-Executive Director	(Member)
Mr. Jiang Ercheng	Non-Independent Non-Executive Director	(Member)

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. Updates on changes in accounting standards and treatment are prepared by external auditors and circulated to members of the AC 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\$85,000, comprising of S\$80,000 audit fee and S\$5,000 non-audit fee. The non-audit fee is 6% 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.

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.

# CORPORATE GOVERNANCE STATEMENT

## 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 SGX-Net.

No dividend was declared for the financial year ended 31 December 2016 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 2016 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 (四川新荷花中药饮片股份有限公司)  - Purchase of raw materials from Sichuan Neautus	1,958,642	3,235,141

The aggregate value of all interested person transactions in the above table are different from the figures disclosed in related party disclosures in note 24 mainly due to the transactions which are less than S\$100,000 which are included in related party disclosures but excluded from the aggregate value of all interested person transactions.

## 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 2016.

## 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 2016.

## 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 2016 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:

Jiang Yun  
Wu Xuedan  
Chew Heng Ching  
Chew Thiam Keng  
Jiang Ercheng

In accordance with Article 91 of the Company's Articles of Association, Jiang Yun and Chew Heng Ching retire, and being eligible, offer themselves for re-election. In accordance with Article 97 of the Company's Articles of Association, Jiang Ercheng being eligible, offer himself 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:

Name of director	Direct interest		Deemed interest	
	At beginning of financial year	At end of the financial year	At beginning of financial year	At end of the financial year
<b>Ordinary shares</b>				
<i>The Company</i>				
Jiang Ercheng	-	-	5,233,800	5,233,800
Wu Xuedan	-	-	2,281,200	-

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2017.

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 Remuneration Committee, comprising two directors, Chew Thiam Keng and Chew Heng Ching, Pu Weidong (resigned on 1 July 2016) and Jiang Ercheng (appointed on 1 July 2016 and resigned on 1 March 2017), 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 2016 are as follows:

Expiry date	Exercise price	Number of options
11 March 2018	S\$1.25 <sup>(1)</sup>	1,020,000 <sup>(1)</sup>

# 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 2016 are as follows:

<b>Name of director</b>	<b>Aggregate options outstanding as at beginning of financial year <sup>(1)</sup></b>	<b>Aggregate options granted since commencement of plan to end of financial year <sup>(1)</sup></b>	<b>Aggregate options exercised since commencement of plan to end of financial year <sup>(1)</sup></b>	<b>Aggregate options outstanding as at end of financial year <sup>(1)</sup></b>
Chew Heng Ching	100,000	100,000	-	100,000
Chew Thiam Keng	100,000	100,000	-	100,000
	200,000	200,000	-	200,000

(1) 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
Jiang Ercheng	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

Jiang Yun  
Director

Wu Xuedan  
Director

Singapore  
4 April 2017

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2016

## Report on the audit of the financial statements

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 2016, 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.

## Opinion

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 2016 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.

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

As at 31 December 2016, 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 has PPE and land use rights of RMB 11,338,000 and RMB 2,849,000 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 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 1,247,000 was recognised in respect of PPE.

The aforementioned assets assessed for impairment accounted for all the non-current assets of the Group. 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.

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2016

## Key audit matters (cont'd)

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

As disclosed in Notes 9 and 12, the recoverable amounts of the CGUs have been determined based on value in use calculations and fair value less cost of disposal 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. We checked 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. We have also evaluated 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. Management has estimated the fair value less cost of disposal calculation 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. We validated the published prices used against the aforementioned public source and evaluated the appropriateness of the adjustments made, and the overall reasonableness of the measurement considering the fair value measurement objective. We have also reviewed 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. Finally, we evaluated the accuracy and adequacy of the disclosures made on the impairment tests in Notes 9 and 12.

### *Impairment assessment of trade receivables*

The Group's trade receivable balances amounted to RMB 21,039,000 and accounts for approximately 17% of the Group's total assets as at 31 December 2016. At that date, total allowance for impairment of trade receivables amounted to RMB 1,048,000. As the Group's customers are primarily in the People's Republic of China, the slowdown of the China economy may result in more payment delays and higher probability of default by customers. Furthermore, the assessment of impairment of trade receivables involved significant management's judgments and estimates on trade debtors' ability to pay. Accordingly, management's impairment assessment of trade receivables has been determined to be a key audit matter.

We evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. In addition, our audit procedures included, amongst others, on a sample basis, obtaining trade receivable confirmations and evidence of receipts from the customers subsequent to the year end. We also evaluated 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. We assessed 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.

# INDEPENDENT AUDITOR'S REPORT

*For the financial year ended 31 December 2016*

## **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.

# INDEPENDENT AUDITOR'S REPORT

*For the financial year ended 31 December 2016*

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

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.

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 2017

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2016

(In Renminbi)

	Note	2016 RMB'000	2015 RMB'000
<b>Revenue</b>	3	68,839	62,400
Cost of sales		(38,237)	(29,067)
<b>Gross profit</b>		30,602	33,333
Other income		799	2,559
Selling and distribution costs		(21,917)	(20,985)
Administrative costs		(11,964)	(11,579)
Other costs	4	(1,247)	(407)
Finance income	5	250	1,163
Finance costs	5	(875)	(950)
<b>(Loss)/profit before tax</b>	6	(4,352)	3,134
Income tax expense	7	(699)	(7)
<b>(Loss)/profit for the year</b>		(5,051)	3,127
<b>(Loss)/profit attributable to:</b>			
Equity holders of the Company		(4,640)	2,449
Non-controlling interest		(411)	678
		(5,051)	3,127
<b>(Loss)/earnings per share (cents)</b>			
Basic and diluted	8	(20.2)	11.8

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

(In Renminbi)

	2016	2015
	RMB'000	RMB'000
(Loss)/profit for the year	(5,051)	3,127
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	(5,051)	3,127
Total comprehensive income attributable to:		
Equity holders of the Company	(4,640)	2,449
Non-controlling interest	(411)	678
	(5,051)	3,127

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

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

(In Renminbi)

	Note	Group		Company	
		2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Property, plant and equipment	9	11,338	13,166	3	30
Land use rights	10	2,849	2,950	-	-
Investment in subsidiaries	11	-	-	54,999	54,999
Goodwill on consolidation	12	1,323	1,323	-	-
		15,510	17,439	55,002	55,029
<b>Current assets</b>					
Inventories	13	7,167	6,755	-	-
Trade receivables	14	21,039	21,071	-	-
Prepaid expenses		436	728	73	56
Other receivables	15	34,352	1,442	3,895	3,027
Tax recoverable		328	328	-	-
Cash and cash equivalents	16	44,857	77,143	6,484	6,953
		108,179	107,467	10,452	10,036
<b>Current liabilities</b>					
Bank borrowings	17	15,000	15,000	-	-
Trade payables	18	3,782	2,930	-	-
Accrued liabilities and other payables	19	8,176	5,587	764	560
Tax payable		404	11	11	11
		27,362	23,528	775	571
<b>Net current assets</b>		80,817	83,939	9,677	9,465
<b>Non-current liabilities</b>					
Deferred tax liabilities	20	488	488	-	-
<b>Net assets</b>		95,839	100,890	64,679	64,494
<b>Equity attributable to equity holders of the Company</b>					
Share capital	21	83,714	83,714	83,714	83,714
Reserves		7,812	12,452	(19,035)	(19,220)
		91,526	96,166	64,679	64,494
<b>Non-controlling interest</b>		4,313	4,724	-	-
<b>Total equity</b>		95,839	100,890	64,679	64,494

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 2016

(In Renminbi)

	Attributable to equity holders of the Company						Total equity
	Share capital	Employee share options reserve*	Statutory reserve@	Accumulated losses	Total	Non-controlling interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>							
At 1 January 2015	77,315	4,431	11,924	(6,352)	87,318	4,046	91,364
Issuance of shares pursuant to private placement	6,677	-	-	-	6,677	-	6,677
Shares issuance expense	(278)	-	-	-	(278)	-	(278)
Net profit for the year, representing total comprehensive income for the year	-	-	-	2,449	2,449	678	3,127
At 31 December 2015	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

\* 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 76,816,480 (2015: RMB 76,816,480). 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 2016

(In Renminbi)

	Share capital	Employee share options reserve*	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Company</b>				
At 1 January 2015	77,315	4,431	(24,117)	57,629
Issuance of shares pursuant to private placement	6,677	-	-	6,677
Shares issuance expense	(278)	-	-	(278)
Net profit for the year, representing total comprehensive income for the year	-	-	466	466
At 31 December 2015	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

\* 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 2016

(In Renminbi)

	Note	2016 RMB'000	2015 RMB'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax		(4,352)	3,134
Adjustments for:			
Amortisation of land use rights	6	101	101
Reversal of doubtful receivables - trade	6	(5)	(6)
Depreciation of property, plant and equipment	6	1,449	1,661
Gain on sale of held for trading investment securities	6	-	(288)
Impairment loss on property, plant and equipment	4	1,247	407
(Reversal of)/allowance for stock obsolescence	6	(108)	126
Interest income	5	(250)	(1,163)
Interest expense	5	865	869
<b>Operating (loss)/profit before working capital changes</b>		(1,053)	4,841
Changes in working capital:			
Decrease in trade receivables		37	2,214
Increase in inventories		(304)	(1,479)
(Increase)/decrease in prepaid expenses and other receivables		(32,618)	1,336
Increase in trade payables		852	902
Increase/(decrease) in accrued liabilities and other payables		2,589	(433)
<b>Cash flows (used in)/from operations</b>		(30,497)	7,381
Interest received		250	4,176
Interest paid		(865)	(869)
Income tax paid		(306)	(17)
<b>Net cash flows (used in)/from operating activities</b>		(31,418)	10,671
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	9	(868)	(1,531)
Proceeds from gain on sale of held for trading investment securities	6	-	288
Proceeds from maturity of structured deposit		-	15,000
<b>Net cash flows (used in)/from investing activities</b>		(868)	13,757
<b>Cash flows from financing activities</b>			
Advance against share application	21	-	2,229
Proceeds from issuance of shares	21	-	4,448
Shares issuance expense	21	-	(278)
Proceeds from bank borrowings	17	-	10,000
<b>Net cash flows from financing activities</b>		-	16,399
<b>Net (decrease)/increase in cash and cash equivalents</b>		(32,286)	40,827
<b>Cash and cash equivalents at the beginning of the year</b>	16	77,143	36,316
<b>Cash and cash equivalents at the end of the year</b>	16	44,857	77,143

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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 policies below. The financial statements are presented in Renminbi (RMB) and all values in the tables are rounded to the nearest thousands (RMB'000) unless otherwise indicated.

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards. The Group will adopt the new financial reporting framework on 1 January 2018.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except 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 2016. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

### 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 7 <i>Disclosure Initiative</i>	1 January 2017
FRS 115 <i>Revenue from Contracts with Customers</i>	1 January 2018
Amendments to FRS 115 <i>Clarifications to FRS 115 Revenue from Contracts with Customers</i>	1 January 2018
FRS 109 <i>Financial Instruments</i>	1 January 2018
Amendments to FRS 102 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to FRS 40 <i>Transfers of Investment Property</i>	1 January 2018
FRS 116 <i>Leases</i>	1 January 2019
Amendments to FRS 110 & FRS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

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

Except for FRS 109 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115, FRS 109 and FRS 116 are described below.

#### FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, 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 will supersede all current revenue recognition requirements under FRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Group's revenue mainly comprise sale of prescribed and non-prescribed drugs. The Group has completed an initial assessment of the potential effects of the new revenue standard, and expects that there is no material impact on the Group's revenue accounting policy as the Group's revenue contracts involve single performance obligation (being delivery of goods) with no variable considerations.

#### FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

##### (a) Classification and measurement

The Group's financial assets consist trade and other receivables and cash and cash equivalents. The Group does not expect changes in classification and measurement of its financial assets upon adoption.

##### (b) Impairment

FRS 109 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 expects an impact on its equity due to unsecured nature of its receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

#### Transition

The Group plans to adopt the new 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.

#### FRS 116 Leases

FRS 116 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 standard is effective for annual periods beginning on or after 1 January 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

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

#### *FRS 116 Leases (cont'd)*

The Group has completed an initial assessment of the potential effects of the new standard, and expects to capitalise all existing leases on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 2.4 Significant accounting judgments and estimates (cont'd)

#### Impairment of trade receivables (cont'd)

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 loans and 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 RMB 492,000 (2015: increase by RMB 525,000).

#### 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 RMB 328,000 (2015: RMB 328,000), RMB 404,000 (2015: RMB 11,000) and RMB 488,000 (2015: RMB 488,000) at 31 December 2016 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 2016

## 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 2.5 Subsidiaries and principles of consolidation (cont'd)

#### (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.

### 2.7 Property, plant and equipment

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 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.

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 2016

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 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.

### 2.19 **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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 2.19 *Employee benefits (cont'd)*

#### (ii) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognised for services rendered by employees up to the end of the reporting period.

#### (iii) *Pharmesis Share Option Scheme*

Directors and employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled share based payment transactions with directors and employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in the income statement, with a corresponding increase in the employee share options reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share options reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share options reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

### 2.20 *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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### 2.22 Taxes (cont'd)

#### (b) *Deferred tax (cont'd)*

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.

#### (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 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
- a present obligation that arises from past events but is not recognised because:
  - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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	
	2016	2015
	RMB'000	RMB'000
Sale of goods	68,659	61,948
Service income	180	452
	<u>68,839</u>	<u>62,400</u>

## 4. Other costs

	Note	Group	
		2016	2015
		RMB'000	RMB'000
Impairment loss on property, plant and equipment	9	<u>1,247</u>	<u>407</u>

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	
	2016	2015
	RMB'000	RMB'000
(i) Finance income		
- Interest income	<u>250</u>	<u>1,163</u>
(ii) Finance costs		
- Interest expense	(865)	(869)
- Bank charges	<u>(10)</u>	<u>(81)</u>
	<u>(875)</u>	<u>(950)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 6. (Loss)/profit before tax

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

	Note	Group	
		2016	2015
		RMB'000	RMB'000
Amortisation of land use rights	10	101	101
Depreciation of property, plant and equipment	9	1,449	1,661
Audit fees paid to auditors of the Company		429	407
Audit fees paid to affiliates of auditors of the Company		728	690
Non-audit fees paid to auditors of the Company		32	25
Personnel expenses*		26,360	24,552
Reversal of doubtful receivables – trade	14	(5)	(6)
Foreign exchange gain		(337)	(184)
Government grants		(451)	(97)
Legal and professional fees		951	316
Research and development expenses		355	310
(Reversal)/allowance for stock obsolescence	13	(108)	126
Gain on sale of held for trading investment securities		-	(288)

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

	Group	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	24,525	22,790
Pension contributions	1,217	1,164
Other personnel expenses	618	598
	26,360	24,552

Included in personnel expenses are directors' remuneration and directors' fees of RMB 1,655,000 and RMB 722,000 respectively (2015: RMB 1,570,000 and RMB 686,000 respectively).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 7. Income tax expense

	Group	
	2016	2015
	RMB'000	RMB'000
Current tax		
- current year	400	7
- prior year	299	-
Income tax expense recognised in income statement	699	7

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)/profit before tax	(4,352)	3,134
Tax at domestic rates applicable to (loss)/profit in the countries where the Group operates	(714)	1,065
Adjustments:		
Non-deductible expenses	882	650
Utilisation of tax losses carried forward	-	(1,472)
Deferred tax assets not recognised	300	189
Benefit of previously unrecognised deductible temporary differences	(51)	(410)
Effect of partial tax exemption and tax relief	(2)	(15)
Under-provision for income tax in prior years	299	-
Others	(15)	-
Income tax expense recognised in the income statement	699	7

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 are two subsidiaries which qualify for the reduced corporate income tax rate of 15% granted under Announcement 15. The abovementioned subsidiaries have submitted their applications to the tax authorities but have not yet obtained approval to enjoy the reduced corporate income tax as at 31 December 2016.

At the balance sheet date, the subsidiaries in PRC have tax losses and temporary differences of RMB 6,400,000 and RMB 10,900,000 (2015: RMB 10,066,000 and RMB 11,115,000) 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. As at balance sheet date, tax losses amounting to RMB 5,200,000 and RMB 1,200,000 will expire in the financial years ending 31 December 2017 and 31 December 2021 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 8. (Loss)/earnings per share

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

	Group	
	2016	2015
	RMB'000	RMB'000
(Loss)/profit for the year attributable to equity holders of the Company used in computation of basic and diluted (loss)/earnings per share	(4,640)	2,449
	No. of shares	No. of shares <sup>(2)</sup>
	'000	'000
Weighted average number of ordinary shares for basic earnings per share computation	23,000	20,748
Dilutive effect of share options <sup>(1)</sup>	-	-
	23,000	20,748
	Group	
	2016	2015
	RMB	RMB
	Cents	Cents
(Loss)/earnings per share		
- basic and diluted	(20.2)	11.8

<sup>(1)</sup> As at 31 December 2016, the Company has outstanding share options granted to directors and employees of 1,020,000 (2015: 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)/earnings per share of the Group for the financial years.

<sup>(2)</sup> After the completion of share consolidation on 1 September 2015. The Company has consolidated 10 ordinary shares into 1 ordinary share in the capital of the Company and the weighted average number of ordinary shares used for the calculation of earnings per share for the corresponding period in 2014 has been adjusted for the effect of the share consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 9. Property, plant and equipment

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>						
<b>Cost:</b>						
At 1 January 2015	26,231	2,968	19,449	3,867	1,598	54,113
Additions	-	-	128	1,391	12	1,531
Disposal	-	-	-	-	-	-
At 31 December 2015 and 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	26,337	2,968	20,138	5,263	1,650	56,356
<b>Accumulated depreciation and impairment loss:</b>						
At 1 January 2015	17,281	2,968	15,833	3,044	1,284	40,410
Charge for the year	647	-	541	355	118	1,661
Impairment loss	-	-	407	-	-	407
At 31 December 2015 and 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	19,011	2,968	17,972	3,552	1,515	45,018
<b>Net carrying amount:</b>						
At 31 December 2016	7,326	-	2,166	1,711	135	11,338
At 31 December 2015	8,303	-	2,796	1,859	208	13,166

At 31 December 2016, buildings of the Group with carrying amounts of RMB 4,286,000 (2015: RMB 4,487,000) are pledged as security to secure bank borrowings (see Note 17).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

	<b>Other equipment RMB'000</b>
<b>Company</b>	
<b>Cost:</b>	
At 1 January and 31 December 2015, and 1 January and 31 December 2016	245
<b>Accumulated depreciation:</b>	
At 1 January 2015	187
Charge for the year	28
At 31 December 2015 and 1 January 2016	215
Charge for the year	27
At 31 December 2016	242
<b>Net carrying amount:</b>	
At 31 December 2016	3
At 31 December 2015	30

### **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 RMB 1,247,000 (2015: RMB 407,000), 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 2016. The recoverable amount of the production facility was based on its fair value less cost of disposal calculation.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 10. Land use rights

	Group	
	2016	2015
	RMB'000	RMB'000
<b>Cost:</b>		
At 1 January and 31 December	4,191	4,191
<b>Accumulated amortisation:</b>		
At 1 January	1,241	1,140
Amortisation for the year	101	101
At 31 December	1,342	1,241
<b>Net carrying amount</b>	<b>2,849</b>	<b>2,950</b>
Amount to be amortised:		
- Not later than one year	101	101
- Later than one year but not later than five years	404	404
- Later than five years	2,344	2,445

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 26.7 and 33.5 years (2015: 27.7 and 34.5 years).

At 31 December 2016, land use rights of the Group with carrying amounts of RMB 2,136,000 (2015: RMB 2,216,000) are pledged as security to secure bank borrowings (Note 17).

Land use rights have been allocated to the cash generating unit Sichuan Longlife Pharmaceutical Co., Ltd ("Sichuan Longlife") for impairment testing. The impairment assessment for Sichuan Longlife is disclosed in Note 12.

## 11. Investment in subsidiaries

	Company	
	2016	2015
	RMB'000	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 2016

## 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	
			2016 %	2015 %
<b>Held by the Company</b>				
*	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
<b>Held through Chengdu Kinna Pharmaceutical Co., Ltd:</b>				
*	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

\* Audited by Ernst & Young Hua Ming, Chengdu Branch.

+ 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
<b>31 December 2016:</b>				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	(411)	4,313
<b>31 December 2015:</b>				
Sichuan Longlife Pharmaceutical Co., Ltd (四川古蔺肝苏药业有限公司)	PRC	49	678	4,724

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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

	<b>Sichuan Longlife Pharmaceutical Co., Ltd</b>	
	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Current</b>		
Assets	27,779	23,352
Liabilities	(25,381)	(20,277)
Net current assets	2,398	3,075
<b>Non-current</b>		
Assets	8,274	8,434
Net non-current assets	8,274	8,434
Net assets	10,672	11,509

#### Summarised statement of comprehensive income

	<b>Sichuan Longlife Pharmaceutical Co., Ltd</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue	42,022	33,041
(Loss)/profit before income tax	(541)	1,340
Income tax expense	(297)	-
(Loss)/profit after tax	(838)	1,340
Other comprehensive income	-	-
Total comprehensive income	(838)	1,340

#### Other summarised information

	<b>Sichuan Longlife Pharmaceutical Co., Ltd</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net cash flows (used in)/from operating activities	(343)	3,789
Net cash flows used in investing activities	(370)	(3,005)
Net cash flows used in financing activities (Dividends to NCI: nil)	(1,517)	(1,327)
Net decrease in cash and cash equivalents	(2,230)	(543)

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 12. Goodwill on consolidation

	Group	
	2016	2015
	RMB'000	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	
	2016	2015
Growth rates	3%	0%
Pre-tax discount rates	15.7%	15.6%

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

*Budgeted revenue and gross margins* - The budgeted revenue and gross margins are based on past performances and its expectations of market developments.

*Budgeted growth rate* - Management determined the budgeted growth rate based on past experience and its expectations of market developments. The budgeted growth rate used by the Group does not exceed the long-term average growth rate for the industries relevant to the CGUs.

*Discount rate* - The discount rate used represent the current market assessment of the risk specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 13. Inventories

	Group	
	2016	2015
	RMB'000	RMB'000
<b>Statement of financial position:</b>		
Raw materials	2,975	3,018
Work in progress	2,799	2,253
Finished goods	1,393	1,484
At 31 December	7,167	6,755
<b>Income statement:</b>		
Inventories recognised as an expense in cost of sales	38,237	29,067
Inclusive of the following (credit)/charge:		
- (Reversal of)/allowance for stock obsolescence	(108)	126

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

## 14. Trade receivables

	Group	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
- 3 <sup>rd</sup> party	16,405	17,378
- Related party	-	110
Less: Allowance for doubtful receivables	(1,048)	(1,053)
	15,357	16,435
Note receivables	5,682	4,636
	21,039	21,071

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 trade receivables are denominated in RMB.

### **Receivables that are past due but not impaired**

The Group has trade receivables amounting to RMB 2,326,000 (2015: RMB 2,443,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 14. Trade receivables (cont'd)

### *Receivables that are past due but not impaired (cont'd)*

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

	Group	
	2016	2015
	RMB'000	RMB'000
Trade receivables past due:		
60 days and less	1,225	741
61 - 120 days	464	868
121 - 180 days	284	372
More than 181 days	353	462
	2,326	2,443

### *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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>				
Trade receivables – nominal amounts	3,374	3,496	-	-
Less: Allowance for doubtful receivables	(1,048)	(1,053)	-	-
	2,326	2,443	-	-

Movement in allowance accounts:

<b>Group</b>				
At 1 January	1,053	1,380	-	-
Reversal for the year	(5)	(6)	-	-
Written off	-	(321)	-	-
At 31 December	1,048	1,053	-	-

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 15. Other receivables

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables – nominal amounts	34,412	1,502	3,895	3,027
Less: Allowance for doubtful receivables	(60)	(60)	-	-
	<u>34,352</u>	<u>1,442</u>	<u>3,895</u>	<u>3,027</u>

Analysis of allowance for doubtful receivables is as follows:

At 1 January	60	60	-	-
Allowance for the year	-	-	-	-
At 31 December	<u>60</u>	<u>60</u>	<u>-</u>	<u>-</u>

Other receivables include an advance payment of RMB 4,316,000 and RMB 6,973,000 for the acquisition of a company and two properties to Sichuan Neautus Traditional Chinese Medicine Co., Ltd and Chengdu Kinna Investment Co., Ltd, as well as a loan of RMB 21,268,000 to a company to be acquired. Details of the acquisition plan are disclosed in Note 30.

Included in the other receivables of the Group and the Company is an amount of RMB 29,000 (2015: RMB 28,000) which is denominated in Singapore dollar.

## 16. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	40,014	72,556	1,641	2,366
Short-term deposit	4,843	4,587	4,843	4,587
Cash and cash equivalents	<u>44,857</u>	<u>77,143</u>	<u>6,484</u>	<u>6,953</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates ranging from 0.1% to 0.4% (2015: 0.1% to 0.3%) 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 2016 was 0.95% (2015: 0.95%) per annum.

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

	Group and Company	
	2016	2015
	RMB'000	RMB'000
Singapore dollar	4,697	6,818
United States dollar	<u>143</u>	<u>134</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 17. Bank borrowings

	Maturity	Group	
		2016	2015
		RMB'000	RMB'000
<b>Current:</b>			
Fixed rate RMB bank loan	10 January 2017	10,000	10,000
Fixed rate RMB bank loan	15 March 2017	5,000	5,000
		<u>15,000</u>	<u>15,000</u>

The interest rate for the RMB bank loans ranges from 5.0% to 6.0% (2015: 5.5% to 6.7%) 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	
	2016	2015
	RMB'000	RMB'000
Trade payables		
- 3 <sup>rd</sup> party	2,438	2,902
- Related party	1,344	28
	<u>3,782</u>	<u>2,930</u>

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		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Accruals	1,169	1,139	699	549
Other payables	5,043	3,284	65	11
VAT payable	1,374	619	-	-
Advances from customers	590	545	-	-
	<u>8,176</u>	<u>5,587</u>	<u>764</u>	<u>560</u>

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 RMB 764,000 (2015: RMB 560,000) which is denominated in Singapore dollar.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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, RMB 488,000 (2015: RMB 488,000) has been recognised for taxes that would be payable on the undistributed profits of the Group's subsidiaries.

## 21. Share capital

	Group and Company			
	2016		2015	
	Number of shares	RMB'000	Number of shares	RMB'000
Issued and fully paid ordinary shares:				
At 1 January	23,000,000	83,714	20,000,000	77,315
Issuance of shares pursuant to private placement	-	-	3,000,000	6,677
Shares issuance expense	-	-	-	(278)
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.

On 2 October 2015, the Company issued 3,000,000 new ordinary shares at an issue price of SGD0.50 per share. The new shares rank pari passu in all respects with the previously issued shares.

## 22. Employee benefits

Under the previous Pharmesis Share Option Scheme (the "ESOS") which has expired as of August 2015, share options were granted to directors, executives and employees of the Group. 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:

	2016	2015
	Number of share options	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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 22. Employee benefits (cont'd)

### *Movement of share options during the financial year (cont'd)*

#### *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.

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

The weighted average fair value of options granted was RMB 0.43 (2015: RMB 0.43).

The fair value of options granted charged to the income statement during the financial year was RMB nil (2015: 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 12 years. Operating lease payments recognised in the consolidated income statement during the financial year amounted to RMB 375,000 (2015: RMB 326,000).

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

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	286	318	28	31
In the second to fifth year	952	1,031	-	-
More than five years	689	868	-	-
	<u>1,927</u>	<u>2,217</u>	<u>28</u>	<u>31</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 24. Related party disclosures

### (a) Compensation of key management personnel

	Group	
	2016 RMB'000	2015 RMB'000
Short-term employee benefits	3,363	3,127
Central Provident Fund contributions	78	68
	<u>3,441</u>	<u>3,195</u>
Comprise amounts paid to:		
Directors of the Company		
- Directors' remuneration	1,655	1,570
- Directors' fees	722	686
Other key management personnel	1,064	939
	<u>3,441</u>	<u>3,195</u>

### (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 200,000 (2015: 390,000).

### (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:

	Note	Group	
		2016 RMB'000	2015 RMB'000
Companies related to directors			
- Rendering of services	(i)	180	452
- Purchase of raw materials	(ii)	(12,379)	(3,876)
- Rental expense	(iii)	(120)	(90)
- Relocation compensation	(iii)	-	1,990

#### 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, a 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 (2015: RMB 110,000).
- (ii) The Group has entered into a contract with Sichuan Neautus Traditional Chinese Medicine Co., Ltd ("Sichuan"), a company in which Jiang Yun, a 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) In 2015, the Group received a one-off relocation compensation from Chengdu Kinna Investment Co., Ltd ("Chengdu"), a company in which Jiang Yun, a director of the Company, has 47.0% equity interest. The Group has made rental payments to Chengdu during the year. Balances outstanding are disclosed in Note 15 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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 RMB 556,000 (2015: RMB 170,000). A 10% weakening of Renminbi against Singapore dollar would have an equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

### (ii) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and short-term deposits), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

#### *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:

- 53% (2015: 48%) of the Group's trade receivables were due from 5 major customers who are hospitals and medical institutions located in PRC

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### (ii) Credit risk (cont'd)

*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.

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.

	Note	1 year or less	
		2016	2015
		RMB'000	RMB'000
<b>Group</b>			
<b>Financial assets</b>			
Trade receivables	14	21,039	21,071
Other receivables	15	34,352	1,442
Cash and cash equivalents	16	44,857	77,143
Total undiscounted financial assets		<u>100,248</u>	<u>99,656</u>
<b>Financial liabilities</b>			
Bank borrowing		15,073	15,072
Trade and accrued liabilities and other payables (excluding VAT payable and advances from customers)		9,994	7,353
Total undiscounted financial liabilities		<u>25,067</u>	<u>22,425</u>
Total net undiscounted financial assets		<u>75,181</u>	<u>77,231</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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

### (iii) Liquidity risk (cont'd)

	Note	1 year or less	
		2016	2015
		RMB'000	RMB'000
<b>Company</b>			
<b>Financial assets</b>			
Other receivables	15	3,895	3,027
Cash and cash equivalents	16	6,484	6,953
Total undiscounted financial assets		10,379	9,980
<b>Financial liabilities</b>			
Accrued liabilities and other payables	19	764	560
Total undiscounted financial liabilities		764	560
Total net undiscounted financial assets		9,615	9,420

## 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		Company	
		2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Loans and receivables</b>					
Trade receivables	14	21,039	21,071	-	-
Other receivables	15	34,352	1,442	3,895	3,027
Cash and cash equivalents	16	44,857	77,143	6,484	6,953
		100,248	99,656	10,379	9,980
<b>Financial liabilities carried at amortised cost</b>					
Bank borrowings	17	15,000	15,000	-	-
Trade payables	18	3,782	2,930	-	-
Accrued liabilities and other payables (excluding VAT payable and advances from customers)		6,212	4,423	764	560
		24,994	22,353	764	560

*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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 27. Fair value of assets and liabilities

### (a) Fair value hierarchy

The Group categorises 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 than 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
<b>Property, plant and equipment</b>			
- Oral liquid production facility	Level 3	Depreciated replacement cost	Residual ratio

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

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.

	Carrying amount	Effect of reasonably possible alternative assumptions	
		Profit or loss	Other comprehensive income
31 December 2016	RMB'000	RMB'000	RMB'000
<b>Property, plant and equipment</b>			
- Oral liquid production facility	1,746	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%.

# NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2016*

## **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 2016 and 2015.

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 2016 and 2015.

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 2016, the Group's gearing ratio is zero (2015: zero) as the Group's cash and cash equivalents exceed its outstanding borrowings.

## 29 Segment information

	Western drugs		TCM formulated drugs		Distribution		Eliminations		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenue</b>										
External sales	20,174	21,918	16,748	19,941	31,917	20,541	-	-	68,839	62,400
Inter segment sales	551	744	25,274	13,100	-	-	(25,825)	(13,844)	-	-
Total revenue	20,725	22,662	42,022	33,041	31,917	20,541	(25,825)	(13,844)	68,839	62,400
<b>Result</b>										
Segment result	(899)	4,126	312	2,306	1,571	289			984	6,721
Unallocated corporate expenses									(4,711)	(3,800)
(Loss)/profit from operations									(3,727)	2,921
Finance income	204	1,152	4	7	42	4			250	1,163
Finance costs	(11)	(16)	(857)	(930)	(7)	(4)			(875)	(950)
Income tax expense	-	-	(297)	-	(402)	(7)			(699)	(7)
Net (loss)/profit before non-controlling interest									(5,051)	3,127
Non-controlling interest									411	(678)
Net (loss)/profit									(4,640)	2,449
<b>Assets and liabilities</b>										
<b>Segment assets</b>	72,789	87,277	36,053	25,388	8,259	5,175			117,101	117,840
Unallocated corporate assets									6,588	7,066
Total assets									123,689	124,906
<b>Segment liabilities</b>	2,833	1,336	22,981	21,021	1,261	600			27,075	22,957
Unallocated corporate liabilities									775	1,059
Total liabilities									27,850	24,016
<b>Other segment information</b>										
Capital expenditure	431	1,430	432	93	5	8			868	1,531
Depreciation and amortisation	920	993	592	724	38	45			1,550	1,762
Interest income	(204)	(1,152)	(4)	(7)	(42)	(4)			(250)	(1,163)
Interest expense	11	-	847	869	7	-			865	869
Allowance for/(reversal of) doubtful receivables - trade	110	89	(5)	(47)	(110)	(48)			(5)	(6)
(Reversal)/allowance for stock obsolescence	-	-	(108)	126	-	-			(108)	126
Impairment loss on property, plant and equipment	1,247	407	-	-	-	-			1,247	407

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

## 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		Distribution	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	4,925	6,389	-	-
Customer B	4,790	4,358	-	-
Customer C	-	-	n.m <sup>(1)</sup>	2,907
Customer D	-	-	n.m <sup>(1)</sup>	3,657
Customer E	-	-	4,468	n.m <sup>(1)</sup>
Customer F	-	-	3,726	n.m <sup>(1)</sup>
	9,715	10,747	8,194	6,564

(1) Denotes not meaningful

# NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2016*

## **30. Events occurring after the reporting period**

The Group's subsidiary, Chengdu Kinna Pharmaceutical Co., Ltd entered into a conditional sale and purchase agreement ("SPA") with Sichuan Neautus Traditional Chinese Medicine Co., Ltd, to acquire an industrial complex at Industrial park of Jiangyou Municipality for production capacity expansion plans, through the acquisition of the entire issued and paid-up share capital of Jiangyou Neautus Traditional Chinese Medicine Technology Co., Ltd. ("Jiangyou Neautus"). The purchase consideration of Jiangyou Neautus is RMB 8,631,000.

Chengdu Kinna Pharmaceutical Co., Ltd has also entered into two other agreements to acquire two properties of a building located at Jinniu District, Chengdu, Sichuan Province, which will be used as a non-manufacturing auxiliary facility to support the Group's operations. The purchase consideration of the two properties is RMB 6,973,000.

Both the acquisition plans were approved by the shareholders at an Extraordinary General Meeting held in December 2016 and the acquisition transactions have been completed in January 2017.

## **31. Authorisation of financial statements for issue**

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 4 April 2017.

# STATISTICS OF SHAREHOLDINGS

As at 16 March 2017

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	1	0.10	20	0.00
100 - 1,000	411	42.64	256,200	1.11
1,001 - 10,000	472	48.96	1,616,070	7.03
10,001 - 1,000,000	75	7.78	3,923,830	17.06
1,000,001 AND ABOVE	5	0.52	17,203,880	74.80
<b>TOTAL</b>	<b>964</b>	<b>100.00</b>	<b>23,000,000</b>	<b>100.00</b>

## TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	EMPEROR WEALTH HOLDINGS LIMITED	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	1,918,880	8.34
6	CIMB SECURITIES (SINGAPORE) PTE LTD	571,400	2.48
7	WANG JIA	313,410	1.36
8	LONG BIAO	251,200	1.09
9	PHILLIP SECURITIES PTE LTD	217,300	0.94
10	RAFFLES NOMINEES (PTE) LIMITED	212,720	0.92
11	ZHAO JIE	157,100	0.68
12	OCBC SECURITIES PRIVATE LIMITED	144,590	0.63
13	SEET SEOW MENG VINCENT	129,000	0.56
14	KIW SIN WA	127,800	0.56
15	NGIN CHOON KAY	103,000	0.45
16	LEE CHAY GIAM JOEL	84,250	0.37
17	CHEN BEI	71,400	0.31
18	DBS NOMINEES (PRIVATE) LIMITED	68,000	0.30
19	THE WING ON INVESTMENT COMPANY (S) PTE LTD	60,000	0.26
20	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	57,900	0.25
<b>TOTAL</b>		<b>19,772,950</b>	<b>85.96</b>

# STATISTICS OF SHAREHOLDINGS

As at 16 March 2017

## Substantial shareholders of the Company

(as recorded in the Register of Substantial Shareholders) as at 16 March 2017

Name	No. of Ordinary shares			
	Direct Interest	%	Deemed Interest	%
Emperor Wealth Holdings Limited	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 <sup>1</sup>	-	-	2,281,200	9.92
Jiang Ercheng <sup>2</sup>	-	-	5,233,800	22.76
Sinomem Technology Pte. Ltd. <sup>3</sup>	-	-	4,770,000	20.74
Clean Water Investment Limited <sup>4</sup>	-	-	4,770,000	20.74
Lan Weiguang <sup>5</sup>	-	-	4,770,000	20.74
CDH Water Limited <sup>6</sup>	-	-	4,770,000	20.74
CDH IV Holdings Company Limited <sup>7</sup>	-	-	4,770,000	20.74
China Diamond Holdings Company Limited <sup>8</sup>	-	-	4,770,000	20.74
Wu Shangzhi <sup>9</sup>	-	-	4,770,000	20.74
Jiao Shuge <sup>10</sup>	-	-	4,770,000	20.74
Wang Shu <sup>11</sup>	-	-	3,000,000	13.04
Liu Bing <sup>12</sup>	-	-	3,000,000	13.04

### Notes:

- Mr Yang Yan is deemed to be interested in the shares held by Top Entrepreneur Limited through his direct interest in Top Entrepreneur Limited.
- Mr Jiang Ercheng is deemed to be interested in the shares held by Emperor Wealth Holdings Limited through his controlling interest in Emperor Wealth Holdings Limited.
- 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..
- 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 the shares held by Suntar Investment Pte. Ltd..
- 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..
- 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 the shares held by Suntar Investment Pte. Ltd..
- 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..
- 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..
- 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..

## STATISTICS OF SHAREHOLDINGS

As at 16 March 2017

10. 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 and 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..
11. 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).
12. 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 2017, 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 13th Annual General Meeting (“AGM”) of Pharmesis International Ltd. (the “Company”) will be held at No. 5 Kallang Sector, #03-02, Singapore 349279 on Wednesday, 26 April 2017 at 10.00 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 2016 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to Article 91 of the Company’s Articles of Association:  
  
Mr Chew Heng Ching **(Resolution 2)**  
[See Explanatory Note (i)]  
  
Mr Jiang Yun **(Resolution 3)**  
[See Explanatory Note (i)]  
  
*(Mr Chew Heng Ching will, upon re-election as a Director of the Company, remain as the Chairman of the Audit and Nominating Committees and a member of the Remuneration Committee. He is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited)*  
  
*(Mr Jiang Yun will, upon re-election as a Director of the Company, remain as a member of the Nominating Committee.)*
3. To re-elect Mr Jiang Ercheng, a Director retiring pursuant to Article 97 of the Company’s Articles of Association. **(Resolution 4)**  
[See Explanatory Note (i)]  
  
*(Mr Jiang Ercheng will, upon re-election as a Director of the Company, remain as a member of the Audit Committee.)*
4. To approve the payment of Directors’ fees of SGD 160,000 (equivalent to approximately RMB 800,000) for the financial year ending 31 December 2017 be paid quarterly in advance. **(Resolution 5)**
5. To re-appoint Ernst & Young LLP as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**
6. To transact any other business which may properly be transacted at an AGM.

## AS SPECIAL BUSINESS

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

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

“That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), authority be and is hereby given to the Directors of the Company to:-

- (a) (i) issue shares in the capital of the Company (“shares”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

# NOTICE OF ANNUAL GENERAL MEETING

- (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;
- (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)]

## 8. Ordinary Resolution: Renewal of the mandate for interested person transactions

"That:

- (a) approval be and is hereby given, for the purpose of Chapter 9 of the Listing Manual of the SGX-ST ("Chapter 9"), in particular for the purposes of Rule 920 of the Listing Manual in relation to a general mandate from the Shareholders, for the Company, its subsidiaries and associated companies that are considered to be "entities at risk" (as that term is used in Chapter 9), or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Appendix to the Company's Annual Report dated 11 April 2017 (the "Appendix"), with any party who is of the class of interested persons described in the Appendix, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions as set out in the Appendix ("IPT General Mandate");
- (b) the IPT General Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next AGM of the Company; and

# NOTICE OF ANNUAL GENERAL MEETING

- (c) the Directors and each of them be and is hereby authorised to take such steps, complete and do all such things (including without limitation to execute all such agreements and documents as may be required and to approve any amendments, alterations or modifications to any documents) as they or he may consider necessary, desirable, expedient or in the interests of the Company to give effect to the IPT General Mandate.”

**(Resolution 8)**

[See Explanatory Note (iii)]

By Order of the Board

Lee Pay Lee  
Company Secretary

Singapore, 11 April 2017

## Explanatory Notes:

- (i) The detailed information of Mr Chew Heng Ching, Mr Jiang Yun and Mr Jiang Ercheng can be found under the section entitled “Board of Directors” and page 20 of the Annual Report.

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

Mr Jiang Yun is the Executive Director and Chief Executive Officer (“CEO”) of the Company. Mr Jiang Yun is also the father of Mr Jiang Ercheng who is the Non-Independent Non-Executive Director as well as the controlling shareholder of Emperor Wealth Holdings Limited (“EWH”), a substantial shareholder of the Company. Save as disclosed above, Mr Jiang Yun has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

Mr Jiang Ercheng (“Mr Jiang”) is the son of Mr Jiang Yun who is the Executive Director and CEO of the Company. Mr Jiang is also the controlling shareholder in EWH, a substantial shareholder of the Company. Save as disclosed above, Mr Jiang has no relationship (including immediate family relationships) with the other Directors, the Company and its 10% shareholder.

- (ii) **Ordinary Resolution 7** proposed in item 7 above, if passed, will authorise and empower the Directors of the Company from the date of the above Meeting until the next AGM to issue shares and/or convertible securities in the Company up to an amount not exceeding in aggregate 50% of the total number of issued shares excluding treasury shares and subsidiary holdings of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20% of the total number of issued shares excluding treasury shares and subsidiary holdings of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.
- (iii) **Ordinary Resolution 8** proposed in item 8 above, if passed, will renew the general mandate approved by Shareholders of the Company on 27 December 2016 to authorise the Company and its subsidiaries which are considered to be “entities at risk” under Chapter 9 of the Listing Manual or any of them, in their ordinary course of businesses, to enter into categories of transactions with specific classes of the Company’s interested persons, provided that such transactions are entered into on an arm’s length basis and on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders, and which is proposed to be renewed in the manner and on the terms set out in the Appendix and will empower the Directors of the Company to do all acts necessary to give effect to the IPT General Mandate. 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

# NOTICE OF ANNUAL GENERAL MEETING

- (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.
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.

## **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.

# Pharmesis International Ltd.

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

## Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 11 April 2017.

## 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.) of

\_\_\_\_\_ (Address)

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

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

and/or (delete as appropriate)

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

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "**Meeting**") to be held at 5 Kallang Sector, #03-02, Singapore 349279, on 26 April 2017 at 10.00 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 2016		
2.	To re-elect Mr Jiang Yun, who is retiring under Article 91 of the Company's Articles of Association		
3.	To re-elect Mr Chew Heng Ching, who is retiring under Article 91 of the Company's Articles of Association		
4.	To re-elect Mr Jiang Ercheng, 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		
	<b>SPECIAL BUSINESS</b>		
7.	To authorise the Directors to allot and issue new shares		
8.	To approve the proposed renewal of the IPT General Mandate		

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

Dated this \_\_\_\_\_ 2017

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

\_\_\_\_\_  
Signature of Shareholder(s)  
and Common Seal of Corporate Shareholder

\*Delete where applicable

**IMPORTANT: PLEASE READ NOTES OVERLEAF**



**NOTES:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary), entitled to attend and vote at a meeting of the Company is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member (other than a Relevant Intermediary\*) appoints two (2) proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

“Relevant Intermediary” means:

- a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
  - b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
  - c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
  6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. at 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619, not less than 48 hours before the time appointed for the AGM.
  7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
  8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with section 179 of the Companies Act (Chapter 50) of Singapore.
  9. An investor who holds shares under the Central Provident Fund Investment Scheme (“CPF Investor”) and/or the Supplementary Retirement Scheme (“SRS Investors”) (as may be applicable) may attend and cast his 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 11 April 2017.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Jiang Yun  
(Chief Executive Officer and Executive Director)  
Wu Xuedan  
(Executive Director)  
Chew Heng Ching  
(Non-Executive Chairman and Independent Director)  
Chew Thiam Keng  
(Independent Non-Executive Director)  
Jiang Ercheng  
(Non-Independent Non-Executive Director)

## AUDIT COMMITTEE

Chew Heng Ching (Chairman)  
Chew Thiam Keng  
Jiang Ercheng

## NOMINATING COMMITTEE

Chew Heng Ching (Chairman)  
Chew Thiam Keng  
Jiang Yun

## 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



PHARMESIS

**PHARMESIS INTERNATIONAL LTD.**

Company Registration Number: 200309641E

5 Kallang Sector #03-02

Singapore 349279

[www.pharmesis.com](http://www.pharmesis.com)

**cre8**  
Tel: (65) 63278398