Pharmesis International Ltd.
5 Kallang Sector
#03-02
Singapore 349279
Company registration no.: 200309641E

RESPONSE TO QUERIES FROM SGX ON THE FINANCIAL RESULTS ANNOUNCEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019 ("RESULTS ANNOUNCEMENT")

The Board of Directors of Pharmesis International Ltd. ("**Company**" together with its subsidiaries, collectively the "**Group**") wishes to provide the following information in response to the following queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 5 December 2019 as follows:

SGX's Query
We refer to Pharmesis International Ltd's / the Company's unaudited financial statements for the 3rd quarter ended 30 September 2019 filed on 11 November 2019.

1) Please provide details of the non-current "Construction-in-progress" assets amounting to RMB 28.4 million in the Statement of Financial Position.

Company's response:
The non-current "Construction-in-progress" assets amounting to RMB 28.4 million in the Statement of Financial Position refers to the Group's third production facility at Jiangyou. The newly implemented purchase-with-target-quantity in "4+7" cities policy by the PRC government since the end of 2018, has caused a huge decrease in drug prices and intense price wars between pharmaceutical companies. This latest unforeseen policy has resulted in the current challenging market conditions.

In view of the above which has resulted in significant decrease in the sales and prices of our Er Ding products, the management has decided that it is in the best interest of the group to delay the completion of the construction of the Jiangyou production facility until market conditions improve. In the meantime, management is also exploring various alternative options for the use of the Jiangyou production facility.

SGX's Query

2) At para 8, it was disclosed that "At the end of 2018, the Chinese government implemented a new purchase-with-target-quantity policy in "4+7" cities, which caused a huge decrease of drug prices in pharmaceutical industry."

    a) Please elaborate on what these "4+7" cities are;

    b) Please disclose and elaborate on how the new purchase-with-target-quantity policy caused a huge fall in drug prices in the pharmaceutical industry and how much in general did drug prices fall in the industry as a whole.

Company's response:

a) The "4+7" cities include the "4" main cities, Beijing, Tianjin, Shanghai and Chongqing; and "7" other cities, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi'an.

b) At the end of 2018, the State Medical Insurance Administration (SMIA) of China officially launched the National Drug Centralized Procurement Pilot Scheme (new purchase-with-target-quantity policy), commonly known as the 4+7 Scheme, with the aim to slash generic drug prices and encourage the consolidation of a fragmented system for procuring generic drugs in the country, starting with 11 major cities (4 municipalities and 7 provincial cities). Under the 4+7 scheme, the government awards the tender for a generic drug to the lowest bidder, who will be guaranteed a sale volume of 60-70% of the total market for a year across 11 major cities of China including Beijing, Shanghai, and Guangzhou, which account for approximately one-third of the Chinese pharmaceutical market. This new policy has led to intense price wars between pharmaceutical companies and caused a huge fall in prescribed drug prices in the pharmaceutical industry. This caused the price of some medicines to plunge over 90%, state news agency Xinhua said. The huge drop in prescribed drug prices has led to intense competition in the non-prescribed drug market and price wars in the non-prescribed drug market as well.

SGX's Query

3) It was also disclosed in para 8 that "The Group's revenue decreased by RMB 6.6 million or 49.4% from RMB 13.3 million for 3Q 2018 to RMB 6.7 million for 3Q 2019." Please explain how much of the Group's sales was due to a decrease in prices and how much of it was due to a decrease in quantity.

Company's response:

For the RMB 6.6 million decrease in revenue, approximately 8% was due to decrease in prices and approximately 92% was due to decrease in quantity.

SGX's Query

4) We also note at para 8 that "Gross profit margin decreased from 58.3% in 3Q 2018 to 42.4% in 3Q 2019 mainly due to lower revenue. Other expense was RMB 0.8 million in 3Q 2019, mainly due to inventory written off which was damaged by severe flooding at the Longlife plant caused by torrential rainfall in September 2019." Please disclose if the inventory written off is covered by insurance.

Company's response:

The inventory written off which was damaged by severe flooding at the Longlife plant caused by torrential rainfall in September 2019 was not covered by insurance.

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
9 December 2019