
Response to Queries on Financial Statements and Dividend Announcement for the six months ended 30 June 2022 (“1H FY2022 Results Announcement”)

The Board of Directors (“**Board**”) of Pharmesis International Ltd. (the “**Company**” together with its subsidiaries, collectively the “**Group**”) refers to queries received from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 22 August 2022 in relation to the Company’s announcement dated 12 August 2022 regarding the Company’s unaudited condensed interim financial statements for the 6 months ended 30 June 2022 (“**1H FY2022**”) (the “**1H FY2022 Results Announcement**”) and sets out its responses below:

Query 1:

Please explain why interest income amounted to only RMB 15,000 during the financial period ended 30 June 2022 when the Company has significant cash and bank balance amounting to RMB 11.8 million.

Company’s response to Query 1:

Majority of our cash balances was required for our operational needs and not placed in interest bearing deposits. Hence, the interest income amounted to only RMB15,000 during the financial period ended 30 June 2022.

Query 2:

Please provide an explanation for the increase in the Group’s inventory balance and decrease in the Group’s balance in trade receivables.

Company’s response to Query 2:

As stated in the 1H FY2022 Results Announcement, many cities in China, including Shanghai and Beijing were under lockdown during the first half of 2022. Hence, the demand for our products fell significantly in 1H FY2022. As a result, the Group revenue decreased by RMB6.4 million or 25.4% from RMB25.2 million in 1H FY2021 to RMB18.8 million in 1H FY2022. The increase in the Group’s inventory balance was due to the decrease in revenue and in preparation for the Group’s sales in second half of the year, which was usually higher than the first half of the year. Likewise, the decrease in the Group’s balance in trade receivables was mainly due to the decrease in revenue and collections of trade receivables.

Query 3:

Please provide the reason(s) for the significant borrowings of RMB15 million by the Group when the Group recorded a cash and cash equivalent of RMB11.8 million as at 30 June 2022. Please disclose:

- a) details of the bank borrowings, including the terms of the loan, interest on loans and maturity dates;
- b) a breakdown of the lenders and their identities;
- c) when were the loans obtained and approved by the Board including the Audit Committee; and
- d) the use of proceeds from the loan.

Company's response to Query 3:

The Group first took the RMB15 million working capital loan in FY2015. Starting from FY2016, the Group would repay and draw down the RMB 15 million working capital loan every year.

- a) The loan is a one year working capital loan, secured by a charge over buildings and right-of-use asset of a subsidiary, with interest rate of Loan Prime Rate (LPR) + 1.8% and maturity date 29 January 2023;
- b) The lender is Agricultural Bank of China;
- c) The previous working capital loan obtained in January 2021 was repaid in January 2022. After repayment, a new working capital loan was obtained in January 2022 and approved by the Board; and
- d) The use of proceeds from the loan was for working capital purposes.

Query 4:

Please disclose a breakdown of accrued liabilities and other payables amounting to RMB9 million as at 30 June 2022. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's response to Query 4:

The breakdown of the accrued liabilities and other payables as at 30 June 2022 was as follows:

	As at
	30.06.22
	RMB'000
Other payables	4,786
Accruals	1,210
VAT and duties payable	2,116
Advances from customers	916
Total other payables and accrued liabilities	9,028

The nature of other payables was mainly non-trade payables such as suppliers of property, plant and equipment who were non-related parties. The aging was as follows:

	< 90 days	91 - 180 days	> 180 days	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	28	360	4,398	4,786

Query 5:

Given the Group's significant short-term liabilities, including its short term debt of RMB15 million and cash and bank balance of only RMB11.8 million and noting that the Company incurred losses of RMB3.1 million for the financial period ending 30 June 2022, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short term liabilities, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's response to Query 5:

As at 30 June 2022, the Group's current assets and current liabilities were RMB32.4 million and RMB28.7 million respectively. The Board assessed that as at 30 June 2022, the Group's current assets were adequate to meet the Group's short term liabilities, as the Group was in a net current asset position of RMB3.7 million. The Group intends to fulfil its significant payment obligations in the next 12 months by continuing to improve sales and manage costs effectively. The Group is also exploring various other options to fulfil its payment obligations in the next 12 months.

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
26 August 2022