
Response to Query on Financial Statements and Dividend Announcement for the 12 months ended 31 December 2021 (“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 a query from Singapore Exchange Securities Trading Limited (“SGX-ST”) on 3 March 2022.

SGX’s Query

We refer to Pharmesis International Ltd. (“**Pharmesis**” and/or the “**Company’s**”) announcement on 25 February 2022 regarding the Company’s latest unaudited FY2021 financial statements (“FY2021”).

- 1) The Company disclosed that other income increased by RMB 1.6 million from RMB 0.5 million in FY2020 to RMB 2.1 million in FY2021 mainly due to higher government grant in FY2021. Please disclose the nature and quantum of the government grants and the reason why the grants increased by a significant amount from FY2020 to FY2021. Please disclose on what basis are these grants awarded and the objective of the grants and the government agency giving the grant.

Company’s response:

Different government grants have different objectives, conditions and durations. Government grants can only be recognised as income after fulfilling all the conditions of the projects. Therefore, the amount of government grant will vary every year. The government grants recognised as income in FY2021 were awarded few years ago. They were recognised as income in FY2021 after the completion of the projects and the acceptance of the projects reports by Science and Technology Department in Sichuan province. The nature and details of the main grants were as follows:

Government Agency	Nature and objective of grant	Amount (RMB'000)
Science and Technology Department in Sichuan province	To establish the processing technology of GanHuangCao (赶黄草) decoction pieces	600
Science and Technology Department in Sichuan province	To establish the processing technology of GanHuangCao (赶黄草) decoction pieces	600
Science and Technology Department in Sichuan province	To improve the standardized planting technology of ChuanQiong (川穹), ChuanSheGan (川射干) and GanHuangCao (赶黄草)	300

SGX's Query

2) The Company disclosed that selling and distribution costs decreased by RMB 3.1 million or 17.2% from RMB 17.8 million in FY2020 to RMB 14.7 million in FY2021 mainly due to lower advertising and selling expenses. Please provide the breakdown of the RMB 3.1 million decline in selling and distribution expenses between advertising and selling expenses and elaborate on who these selling expenses are paid to and why it had declined so significantly when compared to FY2020 when revenue had increased by 12% in FY2021.

Company's response:

Selling and distribution costs may not be directly proportionate to the revenue at the Group level which sell different products. Different products require different amount of selling and distribution costs to generate sales. Some products require higher selling and distribution costs while some products require lower selling and distribution costs. The selling and distribution costs declined so significantly when compared to FY2020 when revenue had increased by 12% in FY2021 mainly due to the difference in product mix sales in FY2020 and FY2021. The revenue in FY2020 consist of more revenue from products which have higher selling and distribution costs while the revenue in FY2021 consist of more revenue from products which have **lower** selling and distribution costs. Therefore, the selling and distribution expenses has decreased in FY2021 despite the increase in revenue.

The breakdown of the RMB 3.1 million decline in selling and distribution expenses between advertising and selling expenses were RMB 1.3 million and RMB 1.7 million respectively. Advertising expenses consist of mainly advertising, marketing expenses and sales agency expenses. Selling expenses consist of mainly sales personnel remuneration. The decline in advertising and selling expenses in FY2021 was mainly due to the higher sales of products which have lower selling and distribution cost.

SGX's Query

3) The Company disclosed that the net proceeds of SGD 1.4 million from the issuance of 3 million ordinary shares in 2015 have been utilized for working capital purposes. Please provide a breakdown and quantify the proceeds used for each of the uses of working capital as disclosed by the Company on page 18 of the financial statements.

Company's response:

The breakdown of the proceeds used was as follows:

	Use of proceeds as at 31 Dec 2021 (SGD million)
Purchase of plant and equipment	0.1
Purchase and replenishment of inventories	0.9
Payments to suppliers & service providers	0.3
Payments for other day-to-day operations	0.1
Total	1.4

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
7 March 2022