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## RESPONSE TO QUESTIONS FROM SIAS

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The Board of Directors (the "Board") of Pharmesis International Ltd (the "Company" and together with its subsidiaries, the "Group") did not receive any questions from shareholders in advance of the Annual General Meeting ("AGM") of the Company to be held by electronic means on 29 April 2022 at 11.00 a.m.

The Board wishes to thank the Securities Investors Association (Singapore) ("SIAS") for submitting its questions relating to our FY2021 Annual Report. The questions from SIAS and the Company's responses are set out below.

Q1. The group has two operating (manufacturing) subsidiaries, Chengdu Kinna Pharmaceutical Co., Ltd and Sichuan Longlife Pharmaceutical Co., Ltd, that 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. In addition, Chengdu Pharmesis Pharmaceutical Co., Ltd. focuses on the distribution of pharmaceutical products.

(i) Can management provide shareholders with an update on the COVID-19 situation in its key cities, such as Chengdu, Gulin etc?

(ii) Does management see any changes in the confidence of consumers and businesses, especially as China maintains its Zero-COVID strategy?

(iii) Have the manufacturing operations been affected by the tighter controls? What are the main raw materials needed for the group's manufacturing operations? Are there any difficulties in securing the raw material that is needed?

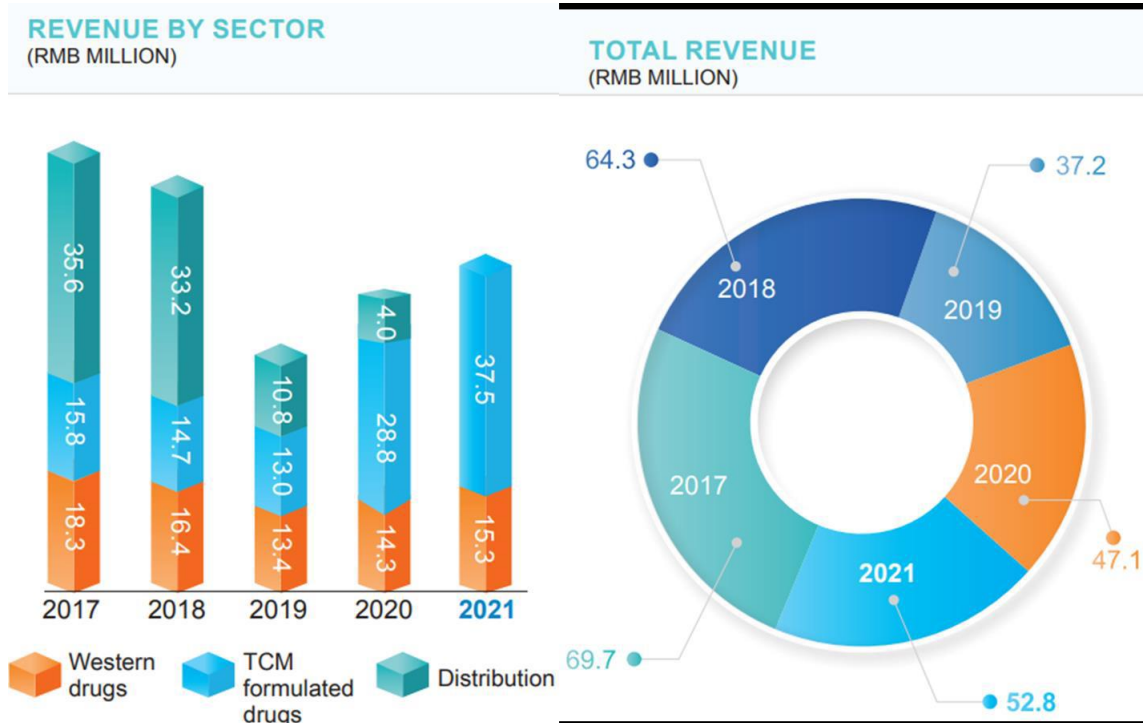
**Company's response:**

(i) The COVID-19 situation in Chengdu and Gulin are much less severe than certain parts of China such as Shanghai. Both Chengdu and Gulin are currently not under lockdown.

(ii) The management does not see any changes in the confidence of consumers and businesses at the moment.

(iii) The manufacturing operations are not affected by the COVID-19 situation at the moment. The main raw materials required for the group's manufacturing operations are mainly the different ingredients required for the production of our pharmaceutical products. There are currently no difficulties in securing the raw materials required.

Q2. As shown on page 11 (Financial highlights), the group's total revenue increased by 12% to RMB52.8 million. TCM formulated drugs have seen significant improvements over the years while revenue from western drugs has trended slightly lower. Revenue from distribution has decreased from RMB4.0 million in FY2020 to \$0 in FY2021.



(Adapted from company annual report)

- (i) Can management provide shareholders with greater clarity on the operations, including:
- Western drugs: What are the reasons for the flat performance? What is the group's competitive advantage in this category?
  - TCM formulated drugs: What factors contributed to the strong growth of TCM formulated drugs? Does the group manufacture all of its TCM formulated drugs? What is the group's manufacturing capacity and the utilisation rate? What is the new TCM product that will be launched soon?
  - Distribution: The group did not recognise any revenue from distribution. Has management ceased the distribution business? Please help shareholders understand the strategic value of the distribution business.

(ii) The following is an extract of the "Operations & financial review" in the annual report (pages 9 and 10). The review provides a "mechanical" summary of the major items in the financial statements, without any insights or information on the group's operations.

## OPERATIONS &amp; FINANCIAL REVIEW

## REVENUE

The Group's FY2021 revenue increased by RMB5.7 million or 12.0% from RMB47.1 million in FY2020 to RMB52.8 million in FY2021. Revenue from Group's non-prescribed drugs segment increased by RMB5.1 million and revenue from prescribed drugs segment increased by RMB0.6 million.

Gross profit margin decreased from 50.6% in FY2020 to 47.4% in FY2021 mainly due to rising costs from both segments. Other income increased by RMB1.6 million from RMB0.5 million in FY2020 to RMB2.1 million in FY2021 mainly due to higher government grant in FY2021.

Selling and distribution costs decreased by RMB3.1 million or 17.2% from RMB17.8 million in FY2020 to RMB14.7 million in FY2021 mainly due to lower advertising and selling expenses. Administrative costs decreased by RMB1.2 million or 11.4% from RMB10.4 million in FY2020 to RMB9.2 million in FY2021 mainly due to RMB0.5 million decrease in R&D expenses, RMB0.3 million in entertainment expenses, RMB0.2 million decrease in repairs & maintenance expenses, RMB0.2 million decrease in personnel expenses.

Other costs for FY2021 was nil. Unlike FY2020, there was other costs of RMB1.3 million impairment loss on property, plant and equipment. Finance income decreased from RMB37,000 in FY2020 to RMB30,000 in FY2021, mainly due to lower finance income from cash and cash equivalents. Finance costs increased from RMB0.9 million in FY2020 to RMB1.1 million in FY2021.

## NET PROFIT

As a result of the above, the Group recorded a net profit attributable to shareholders of RMB1.2 million for FY2021 compared to a net loss of RMB5.8 million for FY2020.

## FINANCIAL POSITION

The Group's non-current assets were RMB55.5 million as at 31 December 2021, an increase of RMB1.2 million from RMB54.3 million as at 31 December 2020. This was mainly due to the increase in property, plant and equipment and right-of-use assets.

The Group's current assets were RMB37.1 million as at 31 December 2021, an increase of RMB0.1 million from RMB37.0 million as at 31 December 2020. This was mainly due to higher inventories, trade receivables and lower prepaid expenses, other receivables, cash and cash equivalents.

The Group's current liabilities were RMB30.8 million as at 31 December 2021, a decrease of RMB1.6 million from RMB32.4 million as at 31 December 2020 mainly due to increase in trade payables, lease liabilities, tax payable and decrease in accrued liabilities & other payables.

The Group's non-current liabilities were RMB1.7 million as at 31 December 2021, an increase of RMB1.0 million from RMB0.7 million as at 31 December 2020 due to increase in lease liabilities.

## OPERATIONS &amp; FINANCIAL REVIEW

## CASH FLOW

The Group's net cash flow from operating activities for FY2021 was RMB0.7 million, mainly due to cash generated from operations and finance costs paid.

Net cash used in investing activities for FY2021 amounted to RMB1.6 million, incurred mainly for the acquisition of plant and equipment.

Net cash used in financing activities for FY2021 amounted to RMB0.3 million, incurred mainly for the repayment of lease liabilities.

As at 31 December 2021, the Group had cash and cash equivalents of RMB14.0 million.

## SHAREHOLDERS' FUNDS

Shareholders' funds amounted to RMB57.5 million as at 31 December 2021. With Group's net profit attributable to equity holders at RMB1.2 million in FY2021, net profit per share was RMB5.1 cents, compared with net loss per share of RMB25.3 cents in FY2020. Net asset value per share as at 31 December 2021 was RMB2.61.



Would the directors, especially the independent chairman, be reviewing the group's communication with shareholders and help the company improve the quality and quantity of disclosure in the annual report?

**Company's response:**

(i) a. Western drugs: The group's main western drug is Anethole Trithione ("ATT"), a prescribed drug, which can only be purchased with a prescription. In FY2020, ATT has been withdrawn from the list of medicines eligible for reimbursement under government-backed insurance plans. As stated in the letter to shareholders on page 4 of the Annual Report 2021, our drugs, especially ATT continue to face intense competition and pricing pressure arising from the China government's reforms of medical services, medical insurance and pharmaceuticals, and centralized bulk-buying in the past few years. Our competitive advantage in western drug is that we are the only pharmaceutical company licensed to produce ATT capsules in the PRC.

b. TCM formulated drugs: TCM formulated drugs are over-the counter ("OTC") medicines which do not require doctors' prescriptions and can be dispensed, purchased and taken by users. Unlike prescribed drugs, OTC drugs are less impacted by the China government's medical reforms. The increase in revenue from TCM formulated drugs is mainly due to the increase in sales of our product Er Ding. The group manufacture all of its drugs, including TCM formulated drugs. The company was operating at about 70% of its capacity in FY2021. The company will announce the new TCM product after its successful launch later this year.

c. Distribution: As stated on page 93 of the Annual Report 2021, starting from FY2021, the Western drugs and TCM formulated drugs segments were fully responsible for their own distributions and were no longer marketed through the distribution arm. Hence, there was no revenue under the distribution segment.

(ii) The Annual Report needs to be read as a whole, in order to get a full and clearer picture of the Group's operations. Insights or information on the group's operations can also be found in other sections of the Annual Report 2021 such as the letter to shareholders (page 4 to page 9) and the auditor's report etc. Nonetheless, the company will continue to improve its communication with shareholders and the quality and quantity of disclosures in the annual report.

Q3. The attendance of the directors at board and board meetings is shown on page 18. The tables from the past 3 years are shown below:

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:

A R2021

Name	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr. Wu Xuedan	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Qi Jie	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. Chay Kwok Kee	4	4	4	4	1	1	1	1
Ms. Chung Chia-Jung	4	3	4	3	N.A.	N.A.	N.A.	N.A.

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:

AR2020

Name	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr. Wu Xuedan	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Qi Jie	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. Chay Kwok Kee	4	4	4	4	1	1	1	1
Ms. Chung Chia-Jung	4	3	4	3	N.A.	N.A.	N.A.	N.A.

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:

AR20219

Name	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr. Wu Xuedan	4	4	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Qi Jie	4	2	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. Chay Kwok Kee	4	4	4	4	1	1	1	1
Ms. Chung Chia-Jung	4	4	4	4	N.A.	N.A.	N.A.	N.A.

(i) What are the extenuating circumstances that led to two of the directors to be absent from the board meetings on numerous occasions in the past 3 years?

(ii) How can the company secretary and the company work together with the board to improve the attendance of directors at board meetings?

In addition, Mr Chew Heng Ching was first appointed to the board on 9 November 2005. Mr Chew Heng Ching has been on the board for over 16 years. Mr Chew Heng Ching obtained shareholders' two-tier vote in April 2021 for his continued appointment as independent director.

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning.

In his biography, Mr. Chew Heng Ching disclosed that he was the founding President of the Singapore Institute of Directors and was Past Chairman of its Governing Council. He was a Member of the Council on Corporate Disclosure and Governance and a fellow of the Singapore Institute of Directors.

(iii) Would Mr. Chew Heng Ching, as the independent chairman, be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?

(iv) What are the near-term plans to promote renewal and succession planning in view of the guidance from SGX RegCo?

**Company's response:**

(i) In the past 3 years, the directors were absent with apologies from the board meetings mainly due to unforeseen circumstances beyond their control. Miss Chung was ill and Mr Qi was absent because of urgent operational matters requiring his personal attention.

(ii) The company secretary and the company will continue to work together with the board to improve the attendance of directors at future board meetings.

(iii) Mr Chew has indicated his intention to step down on several occasions in the past but was persuaded by the other Board members and the substantial shareholders to stay on especially during times of uncertainty brought by the COVID-19 pandemic in recent years. Mr Chew is the most experienced director on the Board and is fully familiar with SGX listing matters. The Board has relied on his guidance and his vast experience in all corporate matters relating to the company. The Nominating Committee ("NC") deemed that the length of service of a Director should not be the determining factor of an Independent Director. In assessing the independence of a Director, the NC considers it more appropriate to have regard to the Director's contribution in terms of professionalism, integrity, objectivity and ability to exercise independence of judgment in his deliberation in the interest of the Company. The NC is of the view that Mr Chew has over the years developed significant insights in the Group's business and operations, and can continue to provide significant and valuable contribution objectively to the Board as a whole. He possesses institutional memory which is relevant to the Independent Directors in their engagement with Management and the Board. Mr Chew has disclosed to the Board his intention to step down after the expiry of the current 3 years period following his two tier election in April 2021.

(iv) The Board's renewal and succession planning have always been part of the Company's plans. The Company is always on the lookout for suitable candidates to refresh its Board.

BY ORDER OF THE BOARD

Wu Xuedan  
Executive Director and Chief Executive Officer  
26 April 2022