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

RESPONSE TO QUESTIONS FROM SIAS

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 on 29 April 2025 at 11.00 a.m.

The Board wishes to thank the Securities Investors Association (Singapore) ("SIAS") for submitting its questions relating to our FY2024 Annual Report. The questions from SIAS and the Company's responses are set out below.

Q1. For the financial year ended 31 December 2024, the group recorded a net profit attributable to shareholders of RMB8.3 million, marking a return to profitability after two consecutive years of losses. Revenue rose 48.2% year-on-year to RMB67.6 million (FY2023: RMB45.6 million), largely driven by the newly established Traditional Chinese Herbs (TCH) procurement segment, which contributed RMB28.9 million in its first half-year of operations.

This segment focuses on sourcing herbal medicines from Sichuan, one of China's largest and most reputable regions for traditional Chinese medicine cultivation. The group procures commonly used herbs from local planters, undertakes further processing, and distributes the products through its established industry network.

(i) What competitive advantage does the group have in sourcing directly from local farmers in Sichuan? Are there entry barriers, such as exclusive supply relationships or regulatory licensing, that differentiate the group?

(ii) How does management ensure the quality, efficacy, and consistency of herbs procured—particularly with regard to medicinal properties, traceability, and contamination risk? How is supply and price volatility being mitigated?

(iii) Does the entry into the herbal procurement segment materially change the group's risk profile? What board-level guidance or oversight has been put in place to manage these risks?

Company's response:

(i) As a pharmaceutical company, the group has been procuring Traditional Chinese Herbs for our own production for the last two decades. Our competitive advantage lies in our experience, reputation and established network with vendors and customers.

(ii) The group follows its well established procurement process to ensure quality, efficacy, and consistency of herbs procured. We operate on a just-in-time model that reduces inventory risk, and mitigate price volatility through long-term vendor relationships and procurement scheduling based on customers' requirement and demand.

(iii) The entry into the herbal procurement segment did not change the group's risk profile materially. The associated operational risks are familiar and within our scope of expertise, given our longstanding procurement of TCH for our own production in the last two decades. The Board has extended internal risk management frameworks to cover this business line and reviews key performance and compliance indicators regularly.

Q2. Following the annual general meeting on 30 April 2024, Mr Chew Heng Ching was redesignated as non-Independent non-executive chairman. He relinquished his roles as chairman of the audit committee, nominating committee, and remuneration committee, but remains a member of all three board committees. His profile is on page 14 of the annual report. Mr Chew has served on the board since 9 November 2005.

(i) Does the redesignation of Mr Chew Heng Ching delay or compromise the board's progressive renewal plan? What message does this send regarding the board's commitment to succession and independence? How unique are his skills, and how will the board address "key-person" risk?

In the letter to shareholders signed off by Mr Chew Heng Ching as chairman and Mr Wu Xuedan as executive director and chief executive officer, it was stated that Mr Chew Heng Ching's redesignation would allow him to continue contributing to the board.

(ii) What has been the total shareholder return over the past 5, 10 and 20 years (or since 9 November 2005)?

(iii) What specific board-level contributions has the director made over the years? As at 31 December 2024, the company has accumulated losses of RMB33.6 million. How have board-level decisions led to long-term value creation, if any?

Previously, the company had disclosed Mr Chew Heng Ching's intention to step down at the end of the 3-year term following the two-tier re-election in April 2021. However, the director stood for re-election at the April 2024 AGM.

(iv) As the former chairman of the nominating committee (NC) prior to April 2024, can the director elaborate on the NC's success in implementing an effective succession plan for the chairman and the CEO? Succession planning is a principal function of the NC stated in its written terms of reference.

(v) What is the board's plan to ensure an effective transition and replacement strategy for the director?

Separately, on 7 April 2025, the company disclosed discrepancies between its unaudited and audited accounts, including misclassification of net proceeds and exclusion of certain charges.

(vi) As the past audit committee chairman and current member, can the director explain how he has contributed to strengthening the group's financial reporting, including ensuring the finance function is adequately resourced and professionally competent?

Company's response:

(i) The redesignation of Mr Chew Heng Ching ("Mr Chew") did not delay or compromise the board's progressive renewal plan. Mr Chew is a non-executive director who is not involved in the day to day operations of the Group. The redesignation is part of a phased board renewal process. While Mr Chew remains a valuable contributor, succession planning is underway to transition key responsibilities. We recognise the importance of board diversity and renewal and are taking deliberate steps to reduce reliance on any one individual.

(ii) The total shareholder returns over the past 5, 10 years and since IPO were approximately 156%, -83% and -77% respectively.

(iii) Over the years, several factors have created headwinds and challenges for the china pharmaceutical industry, impacting the performance of many companies, including us. The China government's medical reforms such as the Centralized Drug Procurement ("CDP") which was implemented to do bulk purchasing to reduce drug prices and healthcare costs. This has led to significant price cuts (over 50% for some drugs) and squeezed the profit margins of pharmaceutical companies, particularly for generic drugs. This price reduction directly impacts both revenue and profitability. In addition, the Covid-19 pandemic was a major challenge for every country and industry, especially for China. Over the years, the Chinese pharmaceutical market was becoming increasingly competitive, with a large number of domestic manufacturers, particularly in the generic drug space. These companies often offer lower-priced alternatives, intensifying price wars. Many companies went under due to these headwinds and challenges. The group proactively adapted our strategies and overcame these challenges.

Despite significant headwinds such as CDP reforms and the COVID-19 pandemic, the Group has maintained operational continuity and diversified revenue streams, including the recent entry into TCH procurement. Mr Chew's strategic oversight has been instrumental in guiding responses to these challenges and ensuring governance continuity. Mr Chew has indicated his intention to step down on several occasions in the past. However, as the other independent directors were new, he was persuaded by the other Board members and the substantial shareholders to stay on for a while longer. Mr Chew is the most experienced director on the Board and being a senior accredited director, is fully familiar with SGX listing matters and governance matters. He 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.

(iv) Succession planning is an important part of the corporate governance process. The NC seeks to refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory. Mr Seow Yong Teng has joined the Board with the view to succeed Mr Chew.

(v) The board's plan to ensure an effective transition and replacement strategy for the director is to identify the needs and potential candidates, comprehensive onboarding plan, mentor and knowledge sharing with potential successor. The Board will continue to look for other directors to strengthen its team.

(vi) The discrepancies identified were non-material and in the nature of reclassification. The Audit Committee has implemented improvements in internal controls and strengthened financial reporting workflows. The Audit Committee is of the view that the finance function is adequately resourced and professionally competent

Q3. On 7 April 2025, the company announced a proposal to reduce its share capital by RMB33,607,486, equivalent to the amount of accumulated losses as at 31 December 2024. The proposed capital reduction seeks to cancel share capital that has been lost or is no longer represented by available assets.

The circular to shareholders can be found here:
https://links.sgx.com/FileOpen/Pharmesis_Circular%20dated%207%20April%202025.ashx?App=Announcement&FileID=839026

The rationale provided is as follows:
The purpose of the Proposed Capital Reduction is to write off the Accumulated Losses with a view to restructure the finances of the Company. This serves to rationalise the balance sheet of the Company for it to be an accurate reflection of the value of its underlying assets, and thus the financial position of the Company. The Company would also be in a better position to retain profits and enhance its ability to pay future dividends, when appropriate, if the Accumulated Losses are written off.

(i) In the course of reviewing the capital reduction proposal, did the board, particularly the independent directors, critically assess the underlying causes of the accumulated losses? What lessons were drawn, and what corrective actions were implemented to ensure future profitability?

(ii) How has the board held management accountable for the group's historical underperformance? Are there systems in place to improve operational discipline, financial forecasting, and board oversight going forward?

(iii) Separately, should the capital reduction be approved, what is the realistic timeline and financial capacity for the company to begin paying dividends? Can the company help shareholders recall if it has ever paid a dividend to shareholders? What is the level of confidence that the company is able to pay dividends in the near future?

Company's response:

(i) Yes, the board conducted a root-cause analysis of the accumulated losses and recognise the importance of diversifying revenue, improving cost controls, and responding faster to policy shifts. Measures such as enhanced margin monitoring and expanding into TCH procurement were implemented as part of the corrective strategy.

(ii) The remuneration policy for Executive Directors and the key management personnel consists of basic salary component and a variable component based on the performance of the Group as a whole and their individual performance. We have also strengthened board oversight through quarterly review of the Groups' performance.

(iii) Subject to business performance and cash flow, the Company is considering dividends post-capital reduction. This would be the first dividend since IPO.

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
27 April 2025