



HYPHENS PHARMA INTERNATIONAL LIMITED

(Company Registration No. 201735688C)
(Incorporated in the Republic of Singapore)

**ANNUAL GENERAL MEETING ON 26 APRIL 2023
RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM
SHAREHOLDERS BEFORE ANNUAL GENERAL MEETING**

The Board of Directors of Hyphens Pharma International Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to thank shareholders and members who have submitted questions in advance of the Company’s Annual General Meeting (“**AGM**”) which will be held at 8 Wilkie Road #03-01 Wilkie Edge Singapore 228095 on 26 April 2023 at 10:00 a.m.

Please refer to the Appendix setting out the Company’s response to substantial and relevant questions relating to the AGM resolutions received from shareholders and members.

BY ORDER OF THE BOARD

Lim See Wah
Executive Chairman and Chief Executive Officer
21 April 2023

This announcement has been reviewed by the Company’s Sponsor, SAC Capital Private Limited (the “Sponsor”). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the “SGX-ST”) and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms Lee Khai Yinn (Tel: +65 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.

1 General / Overall Business

- 1.1 According to the FY2022 annual report, free float of the company is 23.87%. Although this is a good improvement from 19.74% in the FY2018 annual report, it is likely inadequate looking at the thin trading volume of the stock on most days. Further, market capitalisation of the stock is currently about S\$105 million, which translates to only S\$25 million to be freely traded. This amount may also be too low to support institutional participation and price discovery for the stock. Is there a plan from the Board to improve liquidity of the stock? Is expanding the free float an option that would be considered?

Company's response

Thank you for your suggestion. We hold results briefings regularly to engage the investing community to raise awareness of the Company and its business model, growth strategy, and prospects and plans. In FY2022, we held four results briefings which were well attended by financial analysts and institutional investors. Currently, there is no plan to expand the free float.

- 1.2 Could some non-financial metrics of selected business segments be shared on a regular basis (annually or half yearly) so that shareholders and potential investors may better assess and appreciate the quality and development of those businesses over time?

Below are some examples which the Board/management may consider and evaluate:

- a. Specialty pharma principals
- (i) Total number of existing principals and average year of working relationship with existing principals
 - (ii) Total number of existing products and average year of existing product under distributorship/licensing
 - (iii) Average year to expiry of distributorship/licensing for existing products
- b. Pan-Malayan (website and app)
- (i) Total number of active and/or new brand principal accounts
 - (ii) Total number of active and/or new registered customer accounts

Company's response

In addition to the half-yearly results announcements, the Company provides quarterly business updates to the investing community. These updates include business development initiatives of the Group which are aligned with its overall business strategies. From time to time, the Company also provides important updates on new developments such as licencing agreements and product developments. Thank you for your suggestions but we prefer to keep the proposed details confidential for competitive reasons.

- 1.3 Please refer to page 99 of the annual report:

17. Investment in an associate (cont'd)

Name of associate, country of incorporation, place of operations and principal activities (and independent auditor)	Percentage of equity held by the Group	
	2022 %	2021 %
Ardence Pharma Sdn. Bhd. ^(a) ^(b) Malaysia Wholesale of pharmaceutical and medical goods (CH KO & Associates)	42	45

(a) The associate was acquired as part of the acquisition of Novem on 3 December 2021 (Note 26).

(b) During the current reporting year, the associate bought back some shares from its shareholders and issued to its employee, hence reducing the Group's equity interest from 45% to 42%.

If the Ardence shares bought back from shareholders were given to employees, the total number of Ardence shares should remain unchanged, and Hyphen's stake in Ardence should stay at 45%. Were new Ardence shares issued to employees?

Company's response

Ardence has purchased shares back from its shareholders (including the Group) and transferred these shares to Ardence's employee. Consequently, the Group's stake in Ardence has dropped from 45% to 42%.

- 1.4 The 5-year financial highlights in the FY2022 annual report (AR) is a useful inclusion for long-term investors/shareholders as we monitor the progress over the years and grow alongside the company. Hopefully Hyphens Pharma (HP) will continue this practice in future ARs.

From FY2018 to FY2021, HP's revenue had been hovering between \$115.9m – \$125.9m & profit after tax (PAT) \$5.4m – \$6.8m. It is commendable, therefore, HP's revenue and PAT finally increased significantly for FY22. In the last AGM Q&A, HP explained that most of HP's products are non-COVID-19 related, and opening up (of economies) will facilitate better engagement in terms of sales/marketing.

Thus, the FY2022 significant earnings increase is presumably largely due to the normalisation of business activities (lifting of COVID-19 restrictions) as well as the organic & inorganic growth bearing fruit.

- 1.4.1. Specifically, how much of the FY2022 significant earnings increase is due to:
- 1.4.1.1 the pent-up demand (post-COVID)?
 - 1.4.1.2 the cyclical restock by customers in Vietnam (i.e. ahead of the typical 2-year product licence renewals where the last round of licence renewals was in FY2020)?
 - 1.4.1.3 advance orders by the local distributors for Biosensor's coronary stents whose distribution rights ended 31 December 2022?
 - 1.4.1.4 cross-selling opportunities between HP and the newly acquired Novem?

Company's response

Part of the revenue increase was indeed from the pent-up demand, post-COVID. However, we are unable to provide the requested detailed breakdown. There was reduced cyclical restock by distributors in Vietnam during FY2022 as we managed to obtain products licence extension. This also explained for the reduced inventories under consignment as of 31 December 2022, amounted to S\$1.4 million (2021: S\$5.5 million). There were no advance orders made for Biosensor's coronary stents. Novem has embarked on the POM Medical Hypermart platform as an additional source of market outreach.

- 1.4.2 Referring to a recent HP's linkedin post "In the face of many macroeconomic challenges, 2022 has been a phenomenal year of significant strategic progress and excellent financial performance for Hyphens....", is HP of the view that the new higher levels of revenue/PAT is sustainable, barring unforeseen circumstances? In other words, from FY2023 onwards, based on the inherent strengths (as a result of the "strategic progress") of HP's business, is there a reasonable chance for the new base case of revenue of > \$150m and PAT > \$10m, as compared to the revenue/PAT levels from FY2018 to FY2021? Or is the FY2022 financial results purely a one-off, unlikely to be repeated at least in the near future?

Company's response

The global environment remains volatile and challenging due to ongoing supply chain challenges and inflationary pressure. The Group will continue its best efforts to achieve its business objectives.

- 1.5 The greater percentage increase (FY2022 vs FY2021) in PAT (66.7% ↑) vs revenue (28.9% ↑) suggests that HP's profits benefit immensely from "economies of scale". The Specialty Pharmaceuticals (SP) segment contributes the bulk of HP's revenue at 59%. In the previous year's Q&A, HP stated that the strategy is to build products in our current/related therapeutic areas.

- 1.5.1 Given that HP possess strong regulatory capabilities with established regional marketing/distribution network, wouldn't it make sense for HP tap on the core strengths and consider expanding into other common in-demand therapeutic areas/medical specialties?

Company's response

Thank you for your suggestion. We will take these into consideration.

- 1.5.2 Logically, a greater spectrum of therapeutic areas opens up more opportunities (options) for licensing/distribution deals with significant growth potential. In addition, our local government also strongly supports skills upgrading for workers to expand their skillsets. Are there any specific challenges preventing HP from doing so?

Company's response

We are constantly providing training to our sales team, ensuring that they are well-equipped with product knowledge to share with the healthcare professionals.

- 1.6 While most of HP's products are non-COVID-19 related, how much of HP's product portfolio focus on long-term chronic medical conditions?

Company's response

The product portfolio of the Group is well-diversified with products catering to different fields.

- 1.7 It is heartening that the management has been active in participating in media coverage (e.g. SAC Capital Pte Ltd interview) as this helps to create more value for shareholders. Despite this, unfortunately, HP's shares are still relatively thinly traded and trade at a lower P/E valuation than the average of its peers¹. Perhaps HP consider working with its sponsor to try to reach out to more institutional investors/fund managers (e.g. through investor roadshows)? With greater recognition, hopefully HP can trade at a closer valuation to its peers and be included into indexes/mutual funds. A higher HP share price could also mean less cash outlay for future HP acquisitions if the acquisitions are to be financed in part by cash and shares.

¹ <https://www.hyphensgroup.com/wp-content/uploads/2023/04/Hyphens-Pharma-CGS-CIMB-20230413-Report.pdf>

Company's response

Thank you for the suggestion.

- 1.8 In some IPO prospectus, there is an accompanying "Independent Market/Industry Report" in the Appendix to help shareholders understand the industry the company is operating in, e.g. competitive landscape, market share of key players, market size, etc. As HP's IPO document doesn't have such a section, can HP help shareholders understand the operating landscape, e.g. how does HP compete/work with companies like Zuellig Pharma/DKSH/GSK or with the likes of much bigger pharma companies with better distribution network in Asia?

Company's response

Whilst Hyphens may share some similar trade activities with the said players, our Group's activities are not entirely the same and the comparison of the result may not be an appropriate benchmark.

- 1.9 The CFO is an important position. It was announced in May 2022 that the previous CFO had resigned. It is coming to one year since then, has a replacement been found? Is there a need to review any existing process?

Company's response

The recruitment process is still ongoing and we will share more details with shareholders in time to come. During this period, the Executive Chairman & CEO oversees the Group's financial management, assisted by the Finance Director.

1.10 In an interview, the intern shared that she has never heard of HP and I can relate to that. In fact, prior to becoming a shareholder, as someone who is not in a medical-related field, I haven't come across anyone who has heard of HP nor Ceradan/TDF/CG210. It is a pity that HP with its excellent suite of products, is "under the radar". Thus, it may be beneficial if HP can do more in this area, e.g. (a) there are plans for our government regarding health education in schools*, (b) Ocean Health is a strong local recognized brand with potential to be like Milo, Magnolia, Yakult which even local young school children can easily identify with and the brand association may even stay with them till adulthood. Perhaps HP can explore whether there are opportunities in these areas to entrench its brands in the local populace. As a shareholder, I hope for the day where there is at least 1 HP product in every Singapore home!

*<https://www.straitstimes.com/singapore/health/supporting-medical-advances-requires-rethink-of-healthcare-financing-policies-ong-ye-kung>

Company's response

Thank you for the suggestion.

1.11 In last year's AGM Q&A regarding marketing, HP explained it has to be judicious with the marketing spend and ensure that marketing activities have reasonable ROI. To lower the cost, perhaps HP can explore working with tertiary institutions to develop viral marketing campaigns (e.g. final year project, inter-institution competition) or create a HP friends club like PropNex friends where it offers free membership with exclusive invites, deals with partners, etc. Other than monetary ROI, it can also help to promote/retain brand awareness/loyalty of HP/associated brands.

Company's response

Thank you for the suggestion.

1.12 How did Hyphens manage to generate substantial sales in Vietnam with very low headcounts:

	Sales \$'m	% of overall	Headcount	% of overall
2021	41.6	33	26	7
2022	54.6	34	27	7

Company's response

The reported headcount of 27 refers to direct hire by the Group. The business support is supplemented by dedicated field force team from the local distributor in Vietnam. The sales in Vietnam are attributable to the close collaboration between these two teams.

2 Proprietary Brands Segment

2.1 Notwithstanding the proprietary products are sold via various online/offline channels, does HP monitor/have plans to aggregate (electronically/manually) and monitor the average spend per customer per country and the corresponding trend (decrease/increase in average spend), either per channel or aggregated across channels?

Company's response

The Management does monitor sales trends of the various channels in the countries that the Group operates in.

2.2 The PB Segment's revenue has increased by 22.9%. What is predominantly fuelling this growth, e.g. is it due to increase sales in newer markets, new product launches, increased sales of existing products (exclude new launches) in existing markets?

Company's response

There was higher demand for most of the brands under the Proprietary Brands Segment which came from the existing markets including Singapore, Malaysia and Vietnam. New launches have also attributed to the growth but not in a significant manner.

- 2.3 HP does not provide further breakdown within the PB segment. Is/are there any proprietary brands that is not profitable for the past 2 years?

Company's response

No, our proprietary brands are profitable.

- 2.4 In the AR, HP mentioned that the PB continues to be a key focus for the Group. As such, can HP consider providing inventory turnover ratio in future ARs, especially for this segment, so that shareholders can gain better insights to the trends over the years?

Company's response

Thank you for the suggestion.

- 2.5 Amongst the proprietary brands, Ocean Health (OH) brand is arguably the most familiar to local consumers, has HP assessed the feasibility of leveraging the OH brand to bring awareness to the other proprietary brands like Ceradan/TDF, e.g. by combining all the proprietary brands under the HP umbrella in Lazada? This has been done by other brands like LION in Lazada.

Company's response

Thank you for the suggestion.

- 2.6 Previously, HP responded to SIAS questions for AR2019¹ regarding the goodwill impairment and challenging business environment faced by OH in the past few years, Notwithstanding new products have been launched since then, can management give an update on the situation/business strategy for OH, e.g. has the business situation improved for OH? Will there be an increase in the growth rate moving forward?

¹ https://links.sgx.com/FileOpen/Hyphens%20-%20SIAS%20QA%20on%20AR2019_080620.ashx?App=Announcement&FileID=616893

Company's response

Notwithstanding the new products launches, we have successfully launched Ocean Health® in Malaysia and Vietnam. We have recently received approval to launch the brand in Indonesia. We plan to introduce more Ocean Health® products to these countries. The Management will reassess the growth rate from time to time.

3. Proprietary Brands – Ceradan

- 3.1 Ceradan, HP's flagship brand, is operating in a highly competitive market. One of Ceradan's main selling point is the 3:1:1 ratio. A competitor product, QV cream, also has a product series with a 3:1:1. In addition, Ceradan and its competitors' social media feature somewhat similar content e.g. promotions, special occasions, customers' testimonials, etc. Perhaps Ceradan can consider doing something more distinctive, e.g. during Chinese New Year, NTUC Fairprice had a campaign to promote products according to zodiac signs(though this particular example may be more relevant to Ocean Health).

Another observation is on the Facebook page of Ceradan HK (<https://www.facebook.com/tdf.Ceradan.HealthB/>), the response is in English even when the customers enquire using the Chinese language.

How does HP intend for Ceradan to “leapfrog” its competitors, become more customer obsessed and distinctive ?

Company’s response

Thank you for your suggestion and feedback.

3.2 Membership/loyalty programs seem to be pretty common in Singapore. In fact, Ceradan’s competitors like Curel, Cetaphil have their rewards programs. Did HP evaluate the suitability of such a program for Ceradan ?

Company’s response

Thank you for your suggestion. We have started smaller scale ad hoc loyalty programmes with clinics and hospitals. We will evaluate the feasibility of a long-term rewards programme.

3.3 In 2021, HPIL participated in the China International Import Exhibition (CIIE). It also had a collaboration with CMA on a medical write-up after pilot study:

3.3.1 Since then, has HP attended subsequent years’ CIIE or other relevant events in China? If not, is HP pursuing any form of follow-up?

Company’s response

Similarly, in 2022, Ceradan had a booth presence in CIIE with the aim to generate awareness among delegates, traders and government officials. However, please note that we have recently decided to terminate the distributorship in China due to internal issues of the distributor. For avoidance of doubt, the said termination does not have material financial impact to the Group.

3.3.2 Did HP pursue any follow-up since the CMA write-up/pilot study or institute plans to work with the China’s medical community or future engagements?

Company’s response

CMA write-up of the pilot study was intended as early scientific communication of initial local experience on Ceradan use. However, further engagement of the medical community would only be possible after product approval. In view of the recent termination of distributorship, there are no immediate engagement plans at the moment.

3.4 The typical registration time frame for overseas markets is about two years:

3.4.1 Ceradan has already received patents in UK (since 2020) and US. According to last year’s AGM Q&A, HP has started engaging potential distributors with Europe and US. What is progress of engagement and status of the product registration for these 2 countries?

Company’s response

Partnership discussions are ongoing but we are still in early stages.

3.4.2 HP entered into the China market appointed via Shanghai Good Luck in November 2020. Notwithstanding HP has explained that it is a long journey ahead to create a Ceradan presence in China. Can HP share some progress, e.g. what is the status of the product registration? Has there been any hiccups or it is purely just a waiting process (for approval)?

Company’s response

As mentioned above, we have recently decided to terminate the distributorship in China due to internal issues of the distributor.

- 3.5 In last year AGM Q&A, HP explained that internationalization faced challenges like getting right partner. If there is still not much headway within several years for uncontrollable reasons, is HP open to considering carving out proprietary brands segment as a joint venture similar to DocMed, i.e. finding value-added partners/private equity¹ (that can provide high quality distribution introductions) to take a stake?

¹https://prod.schroders.com/en/sysglobalassets/digital/insights/2020/october/how-private-equity-can-work-with-healthcare-companies-to-build-better-longer-lives/2020_oct_infocus_private_equity_and_healthcare_final.pdf

Company's response

Thank you for your suggestion. At the moment, the Management has no intention to find a stake-holding partner with regard to its proprietary business. The Company will be taking part in the upcoming 25th World Congress of Dermatology which will be held in Singapore. We believe that this will be a good platform for further enhancing our business partner network.

4. Medical Hypermart and Digital Segment

- 4.1 What is the main source of income for WellAway and what are the main costs needed to support the business?

Company's response

WellAway's main source of income includes medical prescriptions and delivery charges to patients. Its main operating costs to support the business include payroll cost, platform maintenance fees and delivery charges.

- 4.2 With Singapore in the post-Covid endemic phase, how is WellAway incentivising doctors to use its services and achieve the scale necessary to achieve profitability?

Company's response

WellAway caters to both chronic and acute condition patients. Currently, we do not incentivise doctors as our e-pharmacy serves an actual need by the medical professionals.

- 4.3.1 "Medical Hypermart and digital" saw an increase in revenue from \$43 million to \$41 million. However, the profit fell from \$1.5 million to only \$500k. What are the reasons for the increase in revenue but decrease in profitability?

- 4.3.2 What are the reasons for the sharp decline in profit margin for the "Medical Hypermart and digital" segment?

Company's response

As part of the efforts to transform this segment, there were accelerated investments in digital initiatives to spearhead business expansion. There were also higher distribution costs to support the increased operations requirements.

- 4.3.3 Will the "Medical Hypermart and digital" segment continue to face headwinds and margin compression going forward?

Company's response

Like most businesses, the global environment remains volatile and challenging due to ongoing supply chain challenges and inflationary pressure. We will remain agile and vigilant to respond to challenging market conditions.

4.3.4 Will the performance of the "Medical Hypermart and digital" segment worsen and become unprofitable next year?

Company's response

We expect to continue with our growth strategy to develop the segment, with regionalisation possibilities.

4.3.5 What are the challenges facing the "Medical Hypermart and digital" segment?

Company's response

One of the prized digital assets under the Medical Hypermart and Digital segment is POM, a virtual hypermart. POM is currently one of the largest B2B medical procurement platforms in Singapore, having achieved more than \$30 million in transactions and 500,000 log-ins for 2022. The challenges ahead include how to propel the business beyond Singapore, with DocMed's plan to develop an integrated healthtech platform to cater to healthcare stakeholders in Singapore and the Asia Pacific region.

4.3.6 Are these challenges short term or long term in nature?

Company's response

We expect more challenges in the initial years to quickly scale up operations for DocMed. Like most start-ups, profitability may not be the only measurement of its success.

4.3.7 Are there plans to divest away the "Medical Hypermart and digital" segment?

Company's response

There is no definitive plan to divest the Medical Hypermart and digital segment. We are constantly exploring opportunities to expand the business. We will continue to invest in digital assets like WellAway, POM and DocCentral to support the business growth.

4.4 DocMed obtained \$6m funding from Metro ARC Investment. Metro's business seems more property related. Is Metro purely a passive investor? Other than capital, is Metro able to provide any value-add to DocMed? Other than Metro, did HP try to approach other parties especially value-added partners or international investors/private equity which could provide synergies/help open doors to help DocMed in fulfilling its business strategies? If not, what were the reasons, e.g. lack of contacts?

Company's response

Metro is advising DocMed on its overseas expansion, both in terms of its real estate requirements and also its strategic partnerships in key overseas markets. Metro is also leveraging its overseas network to facilitate DocMed on its expansion.

DocMed is setting up a joint venture to partner with Hoang Duc Pharmaceutical & Medical Supplies Co., Ltd, a leading private pharmaceutical distribution company in Vietnam to develop a B2B Virtual Medical Hypermart for pharmaceutical supplies in Vietnam.

4.5 DocMed has formed a joint venture with the equity owners of Hoang Duc Pharmaceutical & Medical Supplies to develop a B2B virtual medical hypermart for pharmaceutical supplies in Vietnam.

4.5.1 Is the Hoang Duc website: www.hoangduc.net?

Company's response

Yes, this is correct.

- 4.5.2 Given that Hoang Duc's already has the infrastructure in-place (existing distribution network) and DocMed's expertise/experience in managing a B2B platform, what is the estimated timeline for Go-Live/commercialization? Are we looking at some time this year?

Company's response

Commercialisation is subject to local licence approval, which is expected to be in 2nd half of FY2023.

- 4.5.3 Based on the financial information by operating segments, HP's "Medical hypermart and digital segment" has been operating in a relatively low margin. There are cases where e-commerce operators lose money due to intense competition¹. Given that there are existing players with more funding in the market², what is DocMed joint venture's unique value proposition?

¹<https://www.bangkokpost.com/business/2322714/lazada-shopee-jd-central-rack-up-losses-to-gain-users>

²<https://www.hyphensgroup.com/wp-content/uploads/2023/04/Hyphens-Pharma-CGS-CIMB-20230413-Report.pdf>

Company's response

The unique proposition of the joint venture ("JV") lies in that Hoang Duc has extensive distribution and relationships in the pharmaceutical industry over many years. By forming a JV to digitalise its existing distribution capabilities, there is an inherent advantage vis-a-vis newly funded businesses who have to establish the entire supply chain from scratch.

- 4.5.4 Is DocMed concurrently working on establishing similar joint venture in other Asian countries or would be expanding to different countries in stages? If the business strategy is for the latter, would there be a risk that DocMed doesn't have a first-mover advantage or existing players become more entrenched? Is there a potential for similar business models in other markets?

Company's response

Yes, DocMed is currently exploring expansion in other countries, either via a JV or standalone. As the pharmaceutical distribution business is large, we are not overly worried about whether we have first mover advantage. Same analogy as Shopee vs Lazada in certain markets. The pharmaceutical distribution business is predominantly traditional in other countries, and we see huge opportunities to digitalize the entire supply chain.

5. Novem

- 5.1 Is the Novem's FY2022 \$17m revenue figure higher than the past average annual revenues of Novem (i.e. before HP's acquisition) without factoring in post-Covid pent-up demand?

Company's response

Novem's FY2022 \$17 million was higher than the past revenues for FY2020 and FY2021.

- 5.2 It was mentioned in the last AGM Q&A that an integrating committee has been set up to work on harnessing synergies, and HP is discussing with some of Novem's principals to explore regional expansion:

- 5.2.1 Has the integration been fully completed? Have all the cross-selling opportunities between the 2 entities' principals/customers been fully explored?

Company's response

There is no plan to fully integrate Novem into the Group's operations. Novem has an established corporate brand and customer base, and the Management's intent is to run Novem business independently on its own. With that said, the Management does intend to reap resource and revenue synergies with Novem. Novem has embarked on POM Medical Hypermart platform as additional source of market outreach.

5.2.2 What is the outcome of the discussion with Novem's principals?

Company's response

The various discussions are going well. We are expecting to cross-sell products in different countries.

5.2.3 In the past, there was goodwill impairment in Ocean Health due to revenue growth rates being revised down. Does HP foresee any similar issues for Novem?

Company's response

Based on current standing and barring unforeseen circumstances, the Group does not foresee goodwill impairment in Novem.