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Responses to SIAS' questions on FY2018 Annual Report

Pharmesis International Ltd **(** the "**Company**" together with its subsidiaries, collectively the "**Group**") has received questions from Securities Investors Association (Singapore) relating to our FY2018 Annual Report. Our responses to the questions are as follows:

Q1. At the company's annual general meeting scheduled to be held on 26 April 2019, Mr Chew Heng Ching is retiring pursuant to Article 91 of the Company's Articles of Association and will be seeking his re-election.

Should Mr Chew Heng Ching be re-elected, the company has said that Mr Chew will remain as chairman of the audit, nominating and remuneration committees. Mr Chew is also currently the independent chairman of the board.

For reference, the company was listed on 6 October 2004 at a then-IPO price of $0.25 cents per share. The company carried out a share consolidation of 1 for 10 on 28 August 2015. The adjusted IPO price would be $2.50. Based on the corporate announcements on SGXNet, the company has never declared a dividend after its listing. Based on the 6-month volume weighted average price of $0.2258 per share (as seen in SGX StockFacts), the share price have lost more than (90)% in value since the IPO.

(Source: http://www.shareinvestor.com/fundamental/factsheet.html?counter=BFK.SI)

(i) As the board's primary role is to protect shareholders' interests and enhance long-term shareholders' value, would Mr Chew help shareholders understand how he has contributed to the company and what is his effectiveness as the independent chairman of the board?

<u>Company response:</u>

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 other Singapore independent director, Mr Chay is relatively new in the company.

In addition, Mr Chew sits on five other listed companies, namely Bonvests Holdings Limited, Huan Hsin Holdings Ltd, Sinopipe Holdings Limited, Spindex Industries Limited and Ausgroup Limited.

(i) Would Mr Chew help shareholders understand how much time, energy and attention he could devote to the group?

<u>Company response:</u>

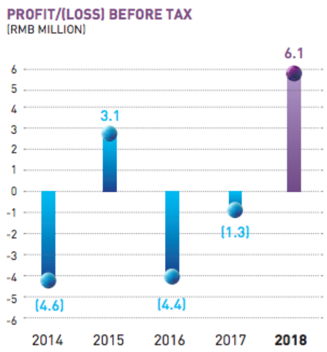
Despite his heavy schedule, Mr Chew who is retired from full-time employment, has spent much time, energy and attention, attending to the Company's matters over the years. He travelled a few times to Chengdu annually to meet up with the Executive Management to review strategic matters and also meet with internal and external auditors.

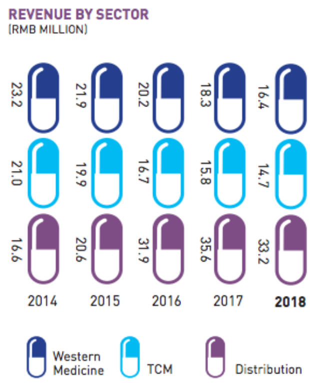
(ii) Should Mr Chew be re-elected, would Mr Chew reconsider his other commitments as the group is in the critical phase of turning its business around?

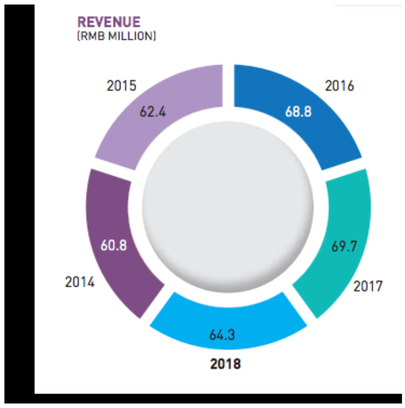
Company response:

As stated above, Mr Chew has been spending much time, energy and attention to the Company despite his heavy schedule and other commitments. He will continue his commitment to best serve the interest of the company.

Q2. The group reported a profit of RMB6.1 million in FY2018, the first time in 5 years. The group's revenue has been stable and fluctuated at around the RMB60-70 million level while the accumulated losses from FY14-FY17 were RMB(7.2) million before the profit of RMB6.1 million.







(Source: Company annual report)

On pages 2 and 3 of the annual report, the company showed 8 of its products.

(i) Can management help shareholders understand which are the best-selling drugs in its overall portfolio?

Company response:

The best-selling drugs in its overall portfolio consist of ATT (ANTETHOLE TRITHIONE), a prescribed drug, Er Ding and Gansu, which are over the counter (OTC), non-prescribed drugs.

(ii) Is there a difference in the profit margin and growth rate between the TCM and the western drugs?

Company response:

Western drugs are mainly drugs prescribed by the doctors, which have higher profit margins but lower potential growth rates as compared to non-prescribed TCM drugs which are sold over the counter and have a lower profit margin but higher potential growth rate.

(iii) How was the group affected by the newly implemented "Two-invoice system" in the PRC?

Company response:

The "Two-invoice system" was implemented in the PRC in 2017. "Two-Invoice System" is a direct English translation of the Chinese term *liang piao zhi*, a better translation would be "two-level distribution network". The core of the regulation is that a manufacturer (importer) sells to a distributor, and the distributor sells directly to the hospital; a second distributor or local dealer is not permitted. Under the Two-invoice system, the traditional multi-level distribution chain has flattened to only two levels. This resulted in higher selling prices and revenue for the Group's prescribed drugs. Correspondingly, selling and distribution costs also increased due to the selling and marketing expenses to distributors that taken active roles to assist the Group to promote and facilitate the sales in various provinces in PRC.

(iv) For the benefit of new and long-standing shareholders, can the company clearly articulate its business model and identify the key value drivers in the different segments.

Company response:

The prescribed drugs' business environment has been challenging for the past few years due to the price cuts and new policies imposed by the PRC government. Therefore, the Group has been focusing on its non-prescribed drugs.

Q3. At the company's extraordinary general meeting scheduled to be held on 26 April 2019, the company is seeking shareholders' approval of the proposed acquisition of an additional 30% shares in its 51% owned subsidiary, Sichuan Longlife Pharmaceutical Co. Ltd ("Longlife").

In the circular dated 11 April 2019, the company disclosed the following about the vendor:

The Vendor

The Vendor, Chengdu Kinna Investment, is a company limited by shares incorporated in the PRC on 3 April 1996 and is engaged in the business of project investment (which includes investment holding and real estate development) (excluding finance, securities, futures), domestic wholesale and retail of commodity products, other than special commodity products which require special separate approval.

For completeness of disclosure, as at the Latest Practicable Date:

(i) Mr Wu Lingnan, the son of Mr Wu Xuedan, an Executive Director and Chief Executive Officer of the Company who joined the Company in 2004, has a 20.00% equity interest in the capital of the Vendor, with the remaining 80% equity interest held by unrelated third parties comprising Mr Jiang Yun (47%), Ms Liu Wei (14%), Mr Yang Yan (10%), Ms Liu Hua Qing (7%), and Mr Chen Si Yu (2%). Mr Wu Xuedan was previously a shareholder of the Vendor since April 1996 and, subsequent to the Announcement, transferred his interest in the Vendor to Mr Wu Lingnan in January 2019. Mr Wu Lingnan is not engaged in the business of the Group. As Mr Wu Xuedan only holds an indirect interest in 20.00% equity in the capital of the Vendor and is not a blood relative of Mr Jiang Yun, the Vendor is not considered an "associate" of Mr Wu Xuedan under Chapter 9 of the Listing Manual. Accordingly, the Vendor does not fall within the definition of "interested person" under Chapter 9 of the Listing Manual;

In summary, Mr Wu Xuedan, who was a shareholder of the vendor since April 1996, "transferred" his interest to his son. In addition, the vendor's largest shareholder (with a 47%) stake is the former CEO of the group.

(i) What was the level of due diligence carried out by the independent directors to ascertain the background of the vendor, including the shareholders and their relationship?

Company response:

The independent directors are familiar with the vendor, who was also the vendor of the Ying Bin Property which the company has bought two office units for its own use in 2017.

(ii) Do the independent directors view that the transfer of the shares by Mr Wu Xuedan to his son as materially changing the nature and risk of the proposed acquisition?

Company response:

No, the independent directors do not view the transfer of the shares by Mr Wu Xuedan to his son (which is a personal matter) as materially changing the nature and risk of the proposed acquisition.

(iii) Did the independent directors review and evaluate if the vendor should be considered as an interested person? Did the independent directors consider how the transaction might be perceived to be an interested person transaction?

Company response:

The independent directors have reviewed and evaluated that the vendor was not to be considered as an interested person in accordance to Chapter 9 of the SGX listing manual.

(iv) Was there any formal agreement and/or purchase consideration for the transfer of shares in the vendor by Mr Wu Xuedan to his son?

Company response:

We are not aware of this as this is a personal matter of Mr Wu Xuedan which is not related to the Company.

BY ORDER OF THE BOARD

Wu Xuedan

Executive Director and Chief Executive Officer

26 April 2019