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

RESPONSE TO QUERY ON SECOND QUARTER RESULT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019 ("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 an email query from Singapore Exchange Securities Trading Limited ("SGX-ST") on 16 August 2019.

SGX's Query

1) For the 6 months' ended 30 June 2019, the administrative costs amounted to RMB 6 million. Please provide a breakdown and explain the material variances from the previous corresponding period.

Company's response:

The variances from the previous corresponding period were mainly due to fines, social insurance expense, write back of impairment loss on trade receivables, rental, repairs & maintenance and others.

RMB million	**1H2019**	**1H2018**	**Variance**
Main admin expenses (salaries, audit fees, listing exp, professional fees etc)	5.3	5.2	0.1
Fines	0.2	0.0	0.2
Social insurance expense	0.2	0.0	0.2
Write back of impairment loss on trade receivables	0.0	(0.2)	0.2
Depreciation of right-of-use assets	0.1	0	0.1
Repairs & maintenance	0.1	0.0	0.1
Miscellaneous	0.1	0.0	0.1
Total Administrative costs	6.0	5.0	1.0

SGX's Query

2) As at 30 June 2019, the Group has significant trade receivables of RMB 13.8 million and other receivables of RMB 12 million.
   a) Please provide a breakdown of the trade receivables of RMB 13.8 million;
   b) Please disclose the Group's assessment of impairment for trade receivables and other receivables.

Company's response:

a) The breakdown of the trade receivables of RMB 13.8 million was as follows:

As at 30.06.2019	RMB'000
Trade receivables past due:	
60 days or less	3,061
61-120 days	1,005
121- 180 days	712
More than 180 days	1,646
	6,423
Trade receivables not due:	7,890
Less: expected credit losses	(527)
Total trade receivables	**13,786**

b) The Group's assessment of impairment for trade receivables and other receivables was computed based on Expected Credit Losses (ECL). The Group had a large amount of overdue trade receivables due to the following reasons. Certain trade receivables from the sales of the prescribed drugs were covered by social insurance and were included in the list of medicine approved by the Social Insurance Bureau in PRC. A longer period was required for the settlement of trade receivables as the payment process was dependent on receipts of the appointed distribution agents from the hospitals and clinics, which were in-turn dependent on the settlement of medical bills out of the patients' medical fund. Similarly, certain trade receivables from the sales of the non-prescribed drugs were dependent on receipts of the appointed distribution agents from the retailers and pharmacies, which will take a longer period. The Group's sales personnel will actively monitor and chase for the settlement of trade receivables that were overdue.

SGX's Query

3) In the previous quarter, for the financial period ended 31 March 2019 (1Q2019), the Group's other receivables amounted to RMB 12.1 million, of which RMB 2.3 million was a "refundable deposit" for the acquisition of 30% of Sichuan Longlife.

a) Please explain why there was only a slight decrease in other receivables in the 2nd quarter of 2019, when the acquisition was completed on 14 May 2019;

b) To disclose the nature of the underlying transactions of these other receivables in 2Q2019;

c) To provide a breakdown of the other receivables in 2Q2019.

Company's response:

a) There was only a slight decrease in other receivables in the 2nd quarter of 2019, when the acquisition was completed on 14 May 2019 because the advance payment for property, plant & equipment has increased while the RMB 2.3 million refundable deposit has decreased to zero.

b) & c) The nature of the underlying transactions of these other receivables and its breakdown in 2Q2019 is as follows:

		As at
		30.06.2019
Notes		**RMB million**
1	Advance payment for purchase of property, plant & equipment	4.3
2	Advance payment for acquisition of two properties	7.0
3	Others	0.8
	Other receivables	**12.0**
	Notes	
1	Advance payment for purchase of property, plant & equipment mainly relates to purchase of equipment for our new production facility at Jiangyou and other production facilities.	
2	Advance payment for acquisition of two properties located at Yingbin Street, Chengdu which were used for our new offices.	
3	Others mainly consist of deposits and advances to sales personnel for travelling etc	

SGX's Query

4) At Pg 9, para 10, the Company stated that "In view of challenging conditions facing the pharmaceutical industry, management has decided to delay the completion of the construction of the Jiangyou manufacturing facility." Earlier, on 28 May 2019, the Company had announced that it made advance payment of RMB 2.4million for PPE for the Jiangyou facility and other production facilities.

   a) Please disclose and elaborate on how Management will delay the completion of the construction of the Jiangyou facility;

   b) To disclose whether the Board had considered the challenging pharmaceutical industry in the PRC when it decided to construct its 3rd manufacturing facility at Jiangyou to increase production capacity.

Company's response:

4b) In December 2016, the Board has decided to purchase and construct its 3rd production facility at Jiangyou to increase production capacity in view of the increasing sales of our non-prescribed drug, Er Ding granules when our non-prescribed drugs production facility at Gulin was operating at maximum capacity. Hence, the need to increase production capacity elsewhere and the construction of the Jiangyou facility. The newly implemented purchase-with-target-quantity in "4+7" cities policy by the PRC government since the end of 2018, has caused a huge decrease in drug prices and intense price wars between pharmaceutical companies. This latest unforeseen policy has resulted in the current challenging market conditions.

4a) In view of the above which has resulted in significant decrease in the sales and prices of our Er Ding products, the management has decided that it is in the best interest of the group to delay the completion of the construction of the Jiangyou production facility until market conditions improve. In the meantime, management is also exploring various alternative options for the use of the Jiangyou production facility.

BY ORDER OF THE BOARD

Wu Xuedan
Executive Director and Chief Executive Officer
20 August 2019