



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Pharmesis International Ltd.

Security: Pharmesis International Ltd.

Meeting details:

Date: 26 April 2019

Time: 11.00 a.m.

Venue: No. 5 Kallang Sector, #03-02, Singapore 349279

Company Description

Pharmesis International Ltd. is a Singapore-based investment holding company. The Company is a pharmaceutical company engaged in the manufacturing of pharmaceutical products, including western medicine in the form of tablets and granules, among others, and traditional Chinese medicine (TCM) formulated products for the treatment of illnesses relating to the liver and gall bladder. It operates in three segments: Western drugs, which refers mainly to chemically formulated drugs marketed under the Kinna brand; TCM formulated drugs, which includes TCM marketed under the Longlife brand, and Distribution, which includes agency products and internally manufactured products marketed through the distribution arm. Its main products are ATT, Gulin Gansu and Er Ding granules. Its subsidiary, Chengdu Kinna Pharmaceutical Co., Ltd, is engaged in the development, manufacture, packaging and sale of western medicines and health tonic products.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BFK)

1. 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>)

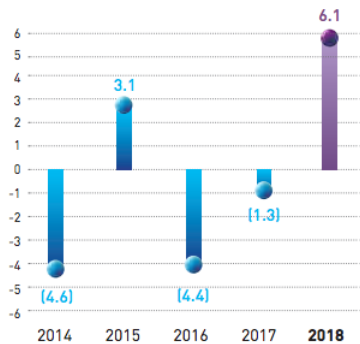
- (i) As the board's primary role is to protect shareholders' interests and enhance long-term shareholders' value, would Mr Chew help shareholders understand how he has contributed to the company and what is his effectiveness as the independent chairman of the board?**

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

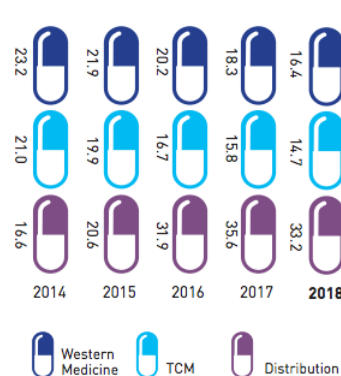
- (i) Would Mr Chew help shareholders understand how much time, energy and attention he could devote to the group?**
- (ii) Should Mr Chew be re-elected, would Mr Chew reconsider his other commitments as the group is in the critical phase of turning its business around?**

2. 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.

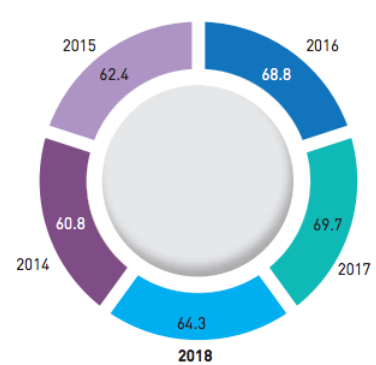
PROFIT/(LOSS) BEFORE TAX
(RMB MILLION)



REVENUE BY SECTOR
(RMB MILLION)



REVENUE
(RMB 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?**
- (ii) **Is there a difference in the profit margin and growth rate between the TCM and the western drugs?**
- (iii) **How was the group affected by the newly implemented “Two-invoice system” in the 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.**

3. 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?**
- (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?**
- (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?**
- (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?**