



PHARMESIS INTERNATIONAL LTD

SUSTAINABILITY REPORT 2019

TABLE OF CONTENTS

1. About Pharmesis International Ltd and its subsidiaries.....	3
2. About the Sustainability Report.....	3
3. Reporting Framework.....	3
4. Board Statement on Sustainability.....	4
5. Materiality Analysis and Material Factors.....	4
6. Key Stakeholders.....	5
7. Material Factors.....	6
8. Sustainability contact.....	7
9. GRI Standards Content Index.....	8

1. ABOUT PHARMESIS INTERNATIONAL LTD AND ITS SUBSIDIARIES

Listed on the Main Board of the Singapore Exchange in October 2004, Pharmesis International Ltd. (“**Pharmesis**”) specialises in the manufacture of pharmaceutical products, including western medicine and Traditional Chinese Medicine (“TCM”). Under our two subsidiaries, Chengdu Kinna Pharmaceutical Co., Ltd and Sichuan Longlife Pharmaceutical Co., Ltd, we specialise in the manufacturing of pharmaceutical products in the form of tablets, granules, pills, etc, including TCM formulated products for the treatment of illnesses relating to the liver and gall bladder. Additionally, our business also includes the research and development, production, sale and marketing of pharmaceutical products.

Our pharmaceutical products are sold in the People’s Republic of China (“PRC”) under the “国嘉” brand. Our main products are ATT, Gulin Gansu and Er Ding granules. Our Gulin Gansu is under the National TCM Protection List and also the first TCM formulated products to be awarded the “Product of Designation of Origin and Geographical Indications of the PRC”. Leveraging our strong research and development capabilities and in-house expertise in pharmaceutical products for the treatment of illnesses relating to the liver and gall bladder, we successfully improved the coating technology of ATT tablets and had received several awards in recognition of this achievement.

2. ABOUT THE SUSTAINABILITY REPORT

The Group issues a Sustainability Report on an annual basis, and had published its Sustainability Report 2019 (“**SR 2019**”) for the financial year ended 31 December 2019 (“FY2019”) in May 2020. This is the Sustainability Report 2019 published by the Group and will cover the period from 1 January 2019 to 31 December 2019 (“FY2019”).

3. REPORTING FRAMEWORK

This Report has been prepared in accordance with the Practice Note 7.6 Sustainability Reporting Guide issued by the SGX-ST and with reference to the Global Reporting Initiative (“GRI”) Standards, the sets of standards issued by the GRI Global Sustainability Standards Board. The GRI Standards sets out generic sustainability factors, general principles and indicators for the Group to report on sustainability policies, practices, performance and targets that is in line with the global best practices for reporting on economic, environmental and social topics.

In specific, this Report references to the following topic-specific disclosures:

GRI 102: General Disclosure 2016
GRI 103: Management Approach 2016
GRI 201: Economic Performance 2016
GRI 403: Occupational Health and Safety 2016
GRI 417: Marketing and Labeling 2016

4. BOARD STATEMENT ON SUSTAINABILITY

The Board of Directors (the “**Board**”) of Pharmesis International Ltd has considered sustainability issues as part of its strategic formulation and provided direct guidance to the Company’s management (the “**Management**”) in the preparation of this report. Based on the guidelines of Global Reporting Initiative (“**GRI**”) Standards, the Board and the Management determined the material environmental, social and governance (**ESG**) factors relevant to the Group. The Management then further assesses, monitors and documents the Group’s efforts in managing the identified material ESG factors. The Board has overseen the management and monitoring of the material ESG factors. The Board and the Management will continue to work closely to ensure that the Group has a structured and functioning sustainability reporting framework. We hope this report will help our stakeholders to understand the Group and its business decisions, and allow the Group to be sustainable in the long run.

5. MATERIALITY ANALYSIS AND MATERIAL FACTORS

A Sustainability Steering Committee comprising senior representatives from different business units and functions, led by the CEO, will be responsible to address all sustainability issues concerning the Group.

The committee undertook a materiality assessment process based on Global Reporting Initiatives (GRI) Standards to identify our material factors that are significant to our businesses and our stakeholders and ultimately form the content of this report.

This process included reviewing our corporate commitments, policies, risks and regulation requirements and engagement with staff and external stakeholders in order to continue to improve our sustainability performance by strategically focusing on material topics which span the economic, environmental, social and governance (ESG) aspects over the coming years.

We have worked through GRI’s 4 steps of materiality – identification, prioritisation, validation and review – to determine an indicative list of material factors. As a first step, Pharmesis undertook an internal assessment to better understand the impacts from our business activities, reviewing our internal risk assessments, strategy and policy commitments, and considered the sustainability disclosure of our peers. Senior management and select members of the Board were involved and engaged in this identification and prioritisation process. We have prioritised three Material Factors, Economic Performance, Product Quality and Safety & Occupational Health and Safety.

6. KEY STAKEHOLDERS

Our key stakeholders are our business associates, employees, regulators, and investors.

Key stakeholder Methods of engagement

Our Key Stakeholders	Forms of Engagement	Key Topics
Business Associates	One-on-one meetings Conferences Site visits Email and phone communication Marketing and distribution Manufacturing and product quality	Marketing and distribution Manufacturing and product quality Supply and logistics Financials Business opportunities Market conditions Regulatory landscape
Employees	Goals determination and work plans Messages from management Performance appraisals Team briefings	Work safety awareness Productivity measures Promoting teamwork
Regulators	Email and phone communication Formal applications and approvals	Compliance Permits and licences Regulatory landscape
Investors	AGM / EGM Email and phone communication SGXNET announcements Corporate website	Company performances Future directions

7. MATERIAL FACTORS

We believe the following factors are relevant for the long term sustainability of the Group:

Focus	Objective & Target	Policies, Performance and Practices												
<p>Economic Performance</p>	<p>Objective: To ensure the Group is in good financial health and is poised for sustainable generation of shareholder value.</p> <p>Target: To achieve and maintain profitability (positive profit before tax).</p>	<table border="1" data-bbox="863 416 1377 658"> <thead> <tr> <th>(RMB million)</th> <th>FY2019</th> <th>FY2018</th> </tr> </thead> <tbody> <tr> <td>Total revenue</td> <td>37.2</td> <td>64.3</td> </tr> <tr> <td>(Loss)/profit before tax</td> <td>(19.5)</td> <td>6.1</td> </tr> <tr> <td>Total Equity</td> <td>64.0</td> <td>99.0</td> </tr> </tbody> </table> <p>FY2019 continued to be another challenging year for the pharmaceutical industry in the People's Republic of China ("PRC"). At the end of 2018, the State Medical Insurance Administration (SMIA) of China officially launched the National Drug Centralized Procurement Pilot Scheme (new purchase-with-target-quantity policy), commonly known as the 4+7 Scheme, with the aim to slash generic drug prices and encourage the consolidation of a fragmented system for procuring generic drugs in the country, starting with 11 major cities (4 municipalities and 7 provincial cities).</p> <p>Under the 4+7 scheme, the government will award the tender for a generic drug to the lowest bidder, who will be guaranteed a sale volume of 60-70% of the total market for a year across 11 major cities of China including Beijing, Shanghai, and Guangzhou. These 11 cities account for approximately one-third of the Chinese pharmaceutical market.</p> <p>This new policy has led to intense price wars between pharmaceutical companies and caused a huge fall in prescribed drug prices in the pharmaceutical industry. This caused the price of some medicines to plunge over 90%, state news agency Xinhua said. The huge drop in prescribed drug prices has led to intense competition and price wars in the non-prescribed drug market as well. This has greatly impacted the Group. Consequently, the Group's sales has decreased significantly starting from FY2019 and resulted in us reporting a net loss in FY2019.</p> <p>Did not achieved positive profit before tax in FY2019.</p>	(RMB million)	FY2019	FY2018	Total revenue	37.2	64.3	(Loss)/profit before tax	(19.5)	6.1	Total Equity	64.0	99.0
(RMB million)	FY2019	FY2018												
Total revenue	37.2	64.3												
(Loss)/profit before tax	(19.5)	6.1												
Total Equity	64.0	99.0												

Focus	Objective & Target	Policies, Performance and Practices
Product Quality and Safety	<p>Objective: To ensure that product quality and safety is never compromised.</p> <p>Target: To achieve zero drug safety incident</p>	<p>Product quality and safety are core to our commercial reputation and consumers' expectations. We are committed to responsible sourcing as it helps assure safety and quality of our end products. We have always stressed the importance of drug quality and safety in our operations in each stage of our production process as evidenced by the GMP certifications over our production facilities.</p> <p>Achieved zero drug safety incident in FY2019.</p>
Occupational Health and Safety	<p>To ensure that our manufacturing facilities remain free from risk to employees, or any other persons on our premises.</p> <p>Target: To achieve zero workplace injuries</p>	<p>Commitment to the safety of our people and of those we work with.</p> <p>Our safety practices outlines the work procedures such that workers can carry out their jobs effectively.</p> <p>Review of safety practices.</p> <p>Achieved zero workplace injuries in FY2019.</p>

8. Sustainability contact

We welcome your views and feedback on our sustainability practices and reporting at enquiry@pharmesis.com.

GRI Standards Content Index

The GRI Content Index references the Pharmesis International Ltd's Sustainability Report 2019 ("SR"), and the Annual Report 2019 ("AR").

GRI Standards	Disclosure Title	Page Reference
General Disclosures		
102-1	Name of organisation	Sustainability Report 2019, Page 3
102-2	Activities, brands, products, and services	Sustainability Report 2019, Page 3
102-3	Location of headquarters	Sustainability Report 2019, Page 3
102-4	Location of operations	Sustainability Report 2019, Page 3
102-5	Ownership and legal form	Sustainability Report 2019, Page 3
102-6	Markets served	Sustainability Report 2019, Page 3
102-7	Scale of organisation	Sustainability Report 2019, Page 3
102-8	Information on employees and other workers	Not applicable
102-9	Supply chain	Not applicable
102-10	Significant changes to the organisation and its supply chain	Not applicable
102-11	Precautionary Principle or approach	AR: Corporate Governance (Pages 17-28)
102-12	External initiatives	Not applicable
102-13	Membership of associations	Not applicable
102-14	Statement from senior decision-maker	AR: Letter to Shareholders (Pages 4-8)
102-15	Key impacts, risks, and opportunities	AR: Operations Review (Page 9, 10)
102-16	Values, principles, standards, and norms of behavior	Sustainability Report 2019, Page 3
102-17	Mechanisms for advice and concerns about ethics	AR: Corporate Governance (Pages 17-28)
102-18	Governance structure	AR: Corporate Governance (Pages 17-28)
102-40	List of stakeholder groups	Sustainability Report 2019, Page 5
102-41	Collective bargaining agreements	Not applicable
102-42	Identifying and selecting stakeholders	Sustainability Report 2019, Page 5
102-43	Approach to stakeholder engagement	Sustainability Report 2019, Page 5
102-44	Key topics and concerns raised	Sustainability Report 2019, Page 5
102-45	Entities included in the consolidated financial statements	AR: Investments in Subsidiaries – Note 12 to the Financial Statements (Page 72)
102-46	Defining report content and topic Boundaries	Sustainability Report 2019, Page 4
102-47	List of material topics	Sustainability Report 2019, Page 4
102-48	Restatements of information	Not applicable
102-49	Changes in reporting	Not applicable
102-50	Reporting period	Sustainability Report 2019, Page 3

GRI Standards	Disclosure Title	Page Reference
General Disclosures		
102-51	Date of most recent report	Not applicable
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Sustainability Report 2019, Page 7
102-54	Claims of reporting in accordance with the GRI Standards	Sustainability Report 2019, Page 3
102-55	GRI content index	Sustainability Report 2019, GRI Content Index
102-56	External assurance	No external assurance

GRI Standards	Disclosure Title	Page Reference
Material Topics		
Economic Performance		
103-1	Explanation of the material topic and its Boundary	Sustainability Report 2019, Page 6
103-2	The management approach and its components	Sustainability Report 2019, Page 6 AR: Operations Review (Page 9, 10)
103-3	Evaluation of the management approach	Sustainability Report 2019, Page 6 AR: Operations Review (Page 9, 10)
201-1	Direct economic value generated and distributed	Sustainability Report 2019, Page 6
Product Quality and Safety		
103-1	Explanation of the material topic and its Boundary	Sustainability Report 2019, Page 7
103-2	The management approach and its components	Sustainability Report 2019, Page 7
103-3	Evaluation of the management approach	Sustainability Report 2019, Page 7
417-2	Incidents of non-compliance concerning product and service information and labelling	In FY2019, there were no incidents of non-compliance concerning product and service labelling.
Occupational Health and Safety		
403-1	Workers representation in formal joint management–worker health and safety committees	Not applicable
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	There were no cases of employees experiencing occupational diseases. There were no fatalities involving employees in 2019.
403-3	Workers with high incidence or high risk of diseases related to their occupation	Not applicable
403-4	Health and safety topics covered in formal agreements with trade unions	Not applicable