



PHARMESIS INTERNATIONAL LTD

SUSTAINABILITY REPORT 2023

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1. READER'S GUIDE

1.1 About Pharmesis

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, jaundice and clears heat toxic etc. 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.

1.2 Report Scope

The Group issues a Sustainability Report on an annual basis, and had published its Sustainability Report 2023 (“**SR**”) for the financial year ended 31 December 2023 in April 2024. This is the Sustainability Report 2023 published by the Group and will cover the period from 1 January 2023 to 31 December 2023 (“**FY2023**”).

In line with our environmental conservation efforts, hard copies of this Report will not be printed. An electronic version of this report is made available on the SGXNET and company’s website.

1.3 Methodology

This report has been prepared in compliance with Listing Rule 711A and 711B of the Singapore Exchange Securities Trading Limited (“**SGX**”), and with reference to the Global Reporting Initiative Sustainability Reporting Standards (“**GRI**” Standards) and the Task Force for Climate-Related Financial Disclosures (“**TCFD**”) as set out in Listing Rule 711B on a ‘comply or explain’ basis (other than as required under Listing Rule 711B(2)). We continue to take steps to fully integrate the TCFD recommendations in our report.

The Company has chosen the GRI Standards as it is the most established international sustainability reporting standard. In this report, we focus on the key material issues for our business. Please refer to the GRI Content Index on page 9 and the TCFD Index on page 11 for relevant references. The Sustainability Report is published annually as part of our Report to Shareholders and is available on both SGX website and our website.

We have relied on internal data monitoring and verification to ensure accuracy of this Report. Our Sustainability Report 2023 has been subject to internal review. We have not sought external assurance for our Sustainability Report 2023 but may consider it in the future. The Group endeavours to continuously improve the content and quality of our non-financial disclosures in alignment with the reporting principles of SGX, GRI Standards and TCFD. We welcome feedback from our stakeholders on this report at: enquiry@pharmesis.com

2. SUSTAINABILITY GOVERNANCE

2.1 Board Statement

The Board of Directors (the “**Board**”) of Pharmesis International Ltd has considered sustainability issues as part of its overall strategy formulation and has determined the environmental, social and governance (“**ESG**”) factors identified as material to the business of the Group. The Board has provided direct guidance to the Company’s management (the “**Management**”) in the preparation of this report. Based on the guidelines of GRI Standards, the Board and the Management determined the material 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.

Board members have also undergone training on sustainability matters to equip themselves with the right knowledge to lead the Company towards sustainability.

2.2 Risk Management

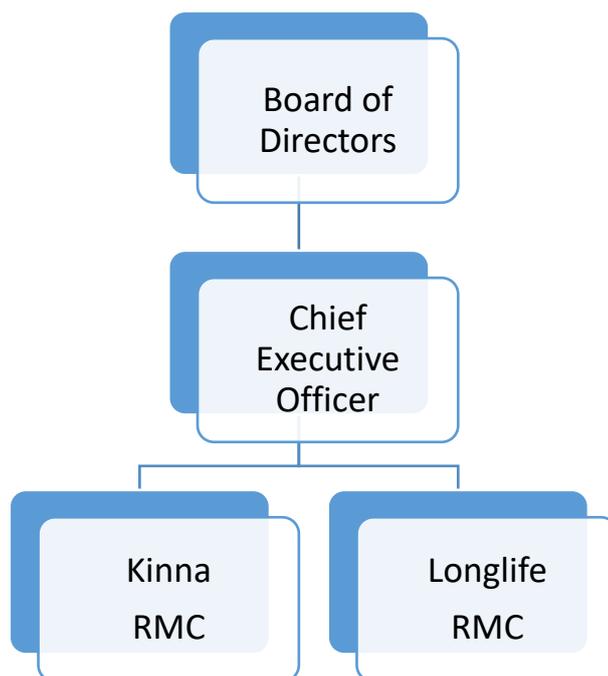
The Risk Management Committee (“**RMC**”) comprising senior representatives from different business units and functions, led by the Chief Executive Officer (“**CEO**”), is responsible to address all risk management issues (including sustainability issues) concerning the Group. The CEO reports to the Board, on the risk management of the Group, including climate-related risks.

The Group’s current risk management process takes into account overall business risks, including climate-related risks. The RMC also keeps abreast of specific emerging risk trends such as climate-related risks.

In 2023, the RMC conducted an initial risk assessment concerning climate-related risks and their potential impact. The “Climate-related Risks” was entered into the Group’s Risk Register for annual review. The Audit Committee and the Board were updated about Climate-related Risks being added as a new risk under the Enterprise Risk Management framework. Disclosure of climate-related risks and opportunities will be a consideration for our future reports, following a more extensive and in-depth risk assessment.

The RMC will continue to assess the materiality of ESG and related risks to the Group as the ESG landscape continues to evolve.

Figure 1: Pharmesis Sustainability Governance Structure



3. STAKEHOLDERS ENGAGEMENT

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 |
|-----------|---|---|

4. MATERIALITY ASSESSMENT

The Risk Management committee undertook a materiality assessment process based on 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 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. 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.

5. ESG SUSTAINABILITY REVIEW

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 profitability (positive profit before tax) for the current year.</p> <p>Mid-term target: To maintain profitability (positive profit before tax) for 3 years.</p> | <table border="1" data-bbox="863 416 1377 663"> <thead> <tr> <th>(RMB million)</th> <th>FY2023</th> <th>FY2022</th> </tr> </thead> <tbody> <tr> <td>Total revenue</td> <td>45.6</td> <td>50.4</td> </tr> <tr> <td>Loss before tax</td> <td>(4.9)</td> <td>(3.2)</td> </tr> <tr> <td>Total Equity</td> <td>54.2</td> <td>57.0</td> </tr> </tbody> </table> <p>FY2023 was the most challenging year for Pharmesis Group in our history. In December 2022, China ended its zero Covid policy, which led to a sudden spike in orders for Er Ding, (which is used to alleviate flu-like symptoms) and Shu Ling Hou (which is used to alleviate sore throat symptoms) in the first two months of 2023. However, on 26 July 2023, severe flash flooding arising from the torrential rain damaged the production equipment and inventory at Longlife Plant, and production was temporarily disrupted for over two months.</p> <p>Despite the above challenges, the Group managed to minimise the decrease in revenue in FY2023 as compared to FY2022.</p> <p>Other costs of RMB4.8 million were losses arising from the flood incident, comprising of RMB3.5 million inventories written off and RMB1.3 million repair costs.</p> <p>As a result of the above, the Group recorded a loss before tax RMB 4.9 million for FY2023 compared to a loss before tax of RMB 3.2 million for FY2022.</p> <p>Did not achieved positive profit before tax in FY2023.</p> <p>Did not achieved positive profit before tax in FY2022 and FY2023.</p> | (RMB million) | FY2023 | FY2022 | Total revenue | 45.6 | 50.4 | Loss before tax | (4.9) | (3.2) | Total Equity | 54.2 | 57.0 |
| (RMB million) | FY2023 | FY2022 | | | | | | | | | | | | |
| Total revenue | 45.6 | 50.4 | | | | | | | | | | | | |
| Loss before tax | (4.9) | (3.2) | | | | | | | | | | | | |
| Total Equity | 54.2 | 57.0 | | | | | | | | | | | | |

| Focus | Objective & Target | Policies, Performance and Practices |
|--|---|--|
| <p>Product Quality and Safety</p> | <p>Objective: To ensure that product quality and safety is never compromised.</p> <p>Short-term target: To achieve zero drug safety incident for the current year.</p> <p>Mid-term target: To achieve zero drug safety incident for 3 years.</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 FY2023.</p> <p>Achieved zero drug safety incident in FY2023, FY2022 and FY2021.</p> |
| <p>Occupational Health and Safety</p> | <p>To ensure that our manufacturing facilities remain free from risk to employees, or any other persons on our premises.</p> <p>Short-term target: To achieve zero workplace injuries for the current year.</p> <p>Mid-term target: To achieve zero workplace injuries for 3 years.</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 FY2023.</p> <p>Achieved zero workplace injuries in FY2023, FY2022 and FY2021.</p> |

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

GRI Content Index

The GRI Content Index references the Pharmesis International Ltd’s Sustainability Report 2023 (“SR”), and the Annual Report 2023 (“AR”).

| | |
|-------------------------|---|
| Statement of Use | Pharmesis has reported the information cited in this GRI content index for the period of 1 January 2023 to 31 December 2023 with reference to the GRI Standards. |
| GRI 1 used | GRI 1: Foundation 2021 |

| GRI Standard | Disclosure Title | Page Reference |
|----------------------------|---|---|
| General Disclosures | | |
| 2-1 | Organisational details | SR, pg. 2 Annual Report: Corporate Profile, pg. 1, Corporate Information, pg. 15 |
| 2-2 | Entities included in the organisation’s sustainability reporting | SR, pg. 2 |
| 2-3 | Reporting period, frequency and contact point | SR, pg. 2 |
| 2-4 | Restatements of Information | Not applicable |
| 2-5 | External assurance | SR, pg. 4 |
| 2-9 | Governance structure and composition | SR, pg. 4,5 Annual Report: Board of Directors, pg. 12, Corporate Information, pg. 15 |
| 2-10 | Nomination and selection of the highest governance body | Annual Report: Corporate Governance Statement, pg. 17 |
| 2-11 | Chair of the highest governance body | Annual Report: Board of Directors, pg. 12 |
| 2-12 | Role of the highest governance body in overseeing the management of impacts | SR, Sustainability Governance, pg. 4 Annual Report: Corporate Governance Statement, pg. 17 |
| 2-13 | Delegation of responsibility for managing impacts | Sustainability Governance, pg. 3 Annual Report: Corporate Governance Statement, pg. 17 |
| 2-14 | Role of the highest governance body in sustainability reporting | SR, pg. 4, 5, 6 |
| 2-15 | Conflicts of interest | Annual Report: Corporate Governance Statement, pg. 17 |
| 2-16 | Communication of critical concerns | Annual Report: Corporate Governance Statement, pg. 17 |

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| 2-17 | Collective knowledge of the highest governance body | Sustainability Governance, pg. 3 |
| 2-18 | Evaluation of the performance of the highest governance body | Annual Report: Corporate Governance Statement, pg. 17 |
| 2-19 | Remuneration policies | Annual Report: Corporate Governance Statement, pg. 17 |
| 2-20 | Process to determine remuneration | Annual Report: Corporate Governance Statement, pg. 30 |
| 2-25 | Processes to remediate negative impacts | Annual Report: Corporate Governance Statement, pg. 36 |
| 2-29 | Approach to stakeholder engagement | Annual Report: Corporate Governance Statement, pg. 38 |

Material Topics

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|-----|--------------------------------------|-------------------------------|
| 3-1 | Process to determine material topics | Materiality Assessment, pg. 6 |
| 3-2 | List of material topics | Materiality Assessment, pg. 6 |

Economic Performance

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|-----|-------------------------------|---|
| 3-3 | Management of material topics | SR, ESG Sustainability Review, Economic Performance, pg. 7 Annual Report, Operations Review, pg. 9 |
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Product Quality and Safety

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|-------|--|--|
| 3-3 | Management of material topics | SR, ESG Sustainability Review, Product Quality and Safety, pg. 8 |
| 417-2 | Incidents of non-compliance concerning product and service information and labelling | SR, ESG Sustainability Review, Product Quality and Safety, pg. 8 |

Occupational Health and Safety

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|-------|-------------------------------|--|
| 3-3 | Management of material topics | ESG Sustainability Review, Occupational Health and Safety, pg. 8 |
| 403-9 | Work-related injuries | ESG Sustainability Review, Occupational Health and Safety, pg. 8 |

8. TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) INDEX

We are in the process of working towards compliance with TCFD requirements and ISSB requirements.

| TCFD Pillars | Recommended Disclosures | Page Reference & Remarks |
|--|--|--|
| <p>Governance Disclose the organization’s governance around climate-related risks and opportunities.</p> | | |
| | a. Describe the board’s oversight of climate-related risks and opportunities. | Sustainability Governance, pg. 4 |
| | b. Describe management’s role in assessing and managing climate related risks and opportunities. | |
| <p>Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.</p> | | |
| | a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | We are evaluating carrying out a preliminary risk assessment of how climate change will affect our operations. When more information is available, we will present the strategies and plans in our future reports. |
| | b. Describe the impact of climate related risks and opportunities on the organization’s businesses, strategy, and financial planning. | |
| | c. Describe the resilience of the organization’s strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario. | |

| TCFD Pillars | Recommended Disclosures | Page Reference & Remarks |
|---|--|--|
| <p>Risk Management Disclose how the organization identifies, assesses, and manages climate-related risks.</p> | | |
| | <p>a. Describe the organization’s processes for identifying and assessing climate-related risks.</p> | <p>Sustainability Governance, pg. 4 Risk Management, pg. 4</p> |
| | <p>b. Describe the organization’s processes for managing climate related risks.</p> | |
| | <p>c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</p> | |
| <p>Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p> | | |
| | <p>a. Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process.</p> | <p>We have not disclosed the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. We are working towards the disclosure of metrics and targets. When more information is available, we will present the metrics and targets in our future reports.</p> |
| | <p>b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.</p> | |
| | <p>c. Describe the targets used by the organization to manage climate related risks and opportunities and performance against targets.</p> | |