GENERAL ANNOUNCEMENT::RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2019

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Submitted By (Co./ Ind. Name)

Lim See Wah

Designation

Executive Chairman and Chief Executive Officer

Description (Please provide a detailed description of the event in the box below)

Please refer to the attached.

This announcement has been prepared by the Company and its contents have been reviewed by the Sponsor, DBS Bank Ltd. ("Sponsor") for compliance with the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact persons for the Sponsor are Ms Heng Mui Mui, Managing Director, and Mr Kelvin Wong, Senior Vice President, who can be contacted at 12 Marina Boulevard, Level 46, Marina Bay Financial Centre Tower 3, Singapore 018982, Telephone: +65 6878 8888.

Attachments

Hyphens%20-%20SIAS%20QA%20on%20AR2019_080620.pdf

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HYPHENS PHARMA INTERNATIONAL LIMITED
(Company Registration No. 201735688C)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2019

The following questions were received from Securities Investors Association (Singapore) ("SIAS") in relation to Hyphens Pharma International Limited's (the "**Company**", and together with its subsidiaries, the "**Group**") Annual Report for the Financial Year Ended 31 December 2019 ("FY2019"). Response from the Company is appended below:

Question 1
As noted in the chairman's statement, the group signed an exclusive distribution agreement with H. Lundbeck A/S Group to market and distribute its products in Vietnam. This enabled the group to market and launch products targeted at the treatment of disorders in the central nervous system in Vietnam.

The specialty pharmaceutical principals segment remains the largest revenue and profit contributor for the group, achieving revenue of $65.2 million and segment profit before tax of $6.1 million.

(i) What are the main selling points of the group that allowed it to win the exclusive distribution rights from specialty pharmaceutical principals?

Company's Response

Hyphens is Singapore's leading specialty pharmaceutical and consumer healthcare group, and this position has been built on its track record over the years with trusted brands and relationships. We possess strong regulatory capabilities, coupled with an established regional marketing and distribution network, operating across five countries and 32 key cities in Southeast Asia with more than 9,000 customers. We have, over time, developed significant experience in certain therapeutic areas or medical specialties and target our specialty pharmaceutical products around these therapeutic areas or medical specialties This unique proposition makes Hyphens a reputable partner for principals around the globe.

(ii) Does the group usually have the exclusive distribution rights for the ASEAN region (namely the five countries where the group has a direct presence - Singapore, Indonesia, Malaysia, the Philippines and Vietnam)?

Company's Response

Yes, the Group usually signs exclusive distribution agreements with its principals for the ASEAN countries where we have our own offices and marketing teams across the cities in those respective countries.

(iii) Are there other key markets in ASEAN that the group would be exploring?

Company's Response

The Group does not have immediate plans to venture into new ASEAN markets for our specialty pharma principals segment but should suitable opportunities present itself, we are open to exploring such opportunities. For the proprietary brands segment, the Group is actively pursuing export opportunities to countries in ASEAN and outside ASEAN to supplement its marketing and distribution network. This covers six other markets – Bangladesh, Brunei, Cambodia, Hong Kong, Myanmar and Oman.

Question 2

The "impairment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 40). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *The carrying amount of trade receivables amounted to $27,507,000 which accounted for approximately 34% of the group's total assets as at the reporting year end…. The gross amount of trade receivables past due over 90 days amounted to $1,478,000. Allowance for impairment of trade receivables made was $220,000. Management is of the view that the remaining amounts are recoverable, based on their knowledge of the customers' payment history and credit worthiness.*

In particular, the age analysis of trade receivables past due is shown below (page 80):

18. Trade and other receivables (cont'd)

(ii) Trade receivables that are past due and / or impaired

The age analysis of non-related party gross trade receivables past due is as follows:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Past due less than 30 days	6,735	2,285	–	–
Past due 30 to 60 days	3,697	2,129	–	–
Past due 60 to 90 days	2,527	1,914	–	–
Past due over 90 days	1,698	1,716	–	–
Total	14,657	8,044	–	–

Trade receivables past due has increased from $8.0 million as at 31 December 2018 to $14.66 million as at the end of the financial year 2019. It appears that the collection of trade receivables across the board slowed down. Trade receivable past due less than 30 days more than doubled from $2.3 million to $6.7 million.

While trade receivables past due over 90 days decreased slightly to $1.7 million, it is still at a relatively significant level. For reference, revenue for 2019 was $119.4 million while net profit was $6.5 million.

(i) Can management help shareholders understand the underlying reasons for the increase in trade receivables past due?

Company's Response

The increase in overdue trade receivables as of 31 December 2019 was due to several factors, including some technical issues, which has since been resolved. Past due trade receivables has reduced as of 31 March 2020 as shown below:

In S$'000	31 Mar 2020	31 Dec 2019
Past due less than 30 days	3,755	6,735
Past due 30 to 60 days	3,614	3,697
Past due 60 to 90 days	1,627	2,527
Past due more than 90 days	1,192	1,698
Total	**10,188**	**14,657**

In addition, of the S$1.70m past due more than 90 days as of 31 December 2019, S$1.67m has been collected to-date and management continues to follow up closely on the remaining past due amounts.

(ii) How does the board ensure that the group adheres to its credit risk policies and collects the trade receivables as and when they are due in a timely manner?

Company's Response

The Group has internal controls in place to monitor and deal with credit risk and the collection of trade receivables. Average collection days has been maintained at below 90 days in the past two years, and bad debts written off remained low at S$1k in FY2018 and S$2k in FY2019.

(iii) For the long outstanding amounts past due over 90 days, can management disclose the upper limit? What are the profiles of the major customers with long outstanding debt?

Company's Response

Customers with long outstanding debts are mainly local distributors and pharmacies. Of the S$1.70m past due more than 90 days as of 31 December 2019, S$1.67m has been collected to-date and management continues to follow up closely on the remaining past due amounts.

Question 3

As disclosed in Note 15 (pages 74 to 76), the group has goodwill (as intangible asset) amounting to $4.85 million of which $4.77 million relates to the goodwill associated with Ocean Health Pte Ltd and DAC Pharmalab Pte Ltd. Ocean Health is primarily engaged in distributing healthcare supplements under its registered trademark, "Ocean Health" and various series of skin care products mainly under a non-registered brand, "Therapeutic Dermatologic Formula" while DAC Pharmalab's core business is provision of bottling and labelling services to Ocean Health Singapore.

In FY2018, there was an impairment loss on goodwill amounting to $(993,000) in consideration of reduced rate of sales growth in the acquired proprietary brands under Ocean Health due to weaker retail sales in Singapore.

Revenue growth rates were revised down from 8%-9% to 4%-5% in 2018, and further adjusted to 3%-5% in FY2019. The terminal growth rate at 1.4% (2018: 2.0%) per annum.

In the 2018 annual report, the impairment was attributed to "increased competition in the market".

(i) Can the board help shareholders understand the value proposition of its healthcare supplements business under Ocean Health to consumers?

<u>Company's Response</u>

- The acquisition of Ocean Health expanded our range of proprietary products and extended our access to retail distribution channels through which our other proprietary products are also distributed, thereby reinforcing Hyphens' positioning as Singapore's leading specialty and consumer healthcare group.
- Established in 1994, Ocean Health is a leading home-grown health supplements company in Singapore which offers a wide range of products of high quality and at affordable prices.
- To maintain our high quality standards, every batch of Ocean Health® products has passed through stringent testing for quality and efficacy to live up to our promise of "**Quality You Can Trust**".
- Well recognised by consumers, healthcare professionals and retailers, Ocean Health® has consistently received awards and accolades. For example, its Omega-3 is Singapore's best-selling fish oil (Omega-3) supplement in major retail pharmacies from 2013 to 2018.
- Ocean Health has also developed the Clinical Series, a professional range of health supplement products to meet the clinical nutrition needs of patients.
- We are continuously looking to expand our healthcare supplements business. Please see further elaboration in our response to question 3(iv) below.

(ii) On what basis did the group project the growth rates to be 8%-9% in prior years?

<u>Company's Response</u>

The Group acquired Ocean Health Pte Ltd with its two brands Ocean Health® and TDF® in Jan 2016. After a one-year integration period with Hyphens, management was eager to expand the two brands and thus set aggressive growth rates to rapidly expand in the Singapore market as well as to enter new export markets. However, competition was intense locally while the registration in overseas markets and identification of reputable overseas distributors has been difficult.

(iii) The healthcare supplements business has been a very crowded space. Consumers can easily purchase the supplements from global online stores that carry a huge range of products. Locally, there are several large retail network chains of healthcare supplements shops. Can management elaborate further on the "increased competition in the market" experienced in 2018 that caused the impairment?

<u>**Company's Response**</u>

Ocean Health is largely sold in the three major chain pharmacies in Singapore but due to competition from e-commerce platforms and weakness in the brick & mortar retail market in Singapore, business has been challenging for Ocean Health in the past few years.

(iv) Given that management has further adjusted its growth rates to 3%-5%, what are management's pro-active plans to maintain/increase sales in the segment?

<u>**Company's Response**</u>

Ocean Health did a facelift on its packaging to a revamped new look in the second half of 2019. The Group further extended its product availability to more digital platforms such as Shopee and Carousell in 2Q2020. The Group has been responsive to market needs and is consistently reviewing these needs and exploring opportunities to market new supplement products to meet demand. For example, the Group has launched a new product (High Strength Omega-3 Vitamin D3-Enriched) in 1Q2020 and a few more new products are planned for launch in the second half of 2020.

BY ORDER OF THE BOARD

Lim See Wah
Executive Chairman and Chief Executive Officer
8 June 2020

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