

29 October 2018

Minority Shareholders Watchdog Group
11th Floor, Bangunan KWSP
No.3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attn: Devanesan Evanson
(Chief Executive Officer)

Dear Sir,

Re: 6th Annual General Meeting (AGM) of Caring Pharmacy Group Berhad ("CARI"
or "the Company" or "the Group") to be held on 30th October 2018

Refer to your letter dated 24 October 2018, enclose herewith our replies for your perusal.

Strategic & Financial Matters

1)

As reported under the Management Discussion & Analysis (MD&A) on Page 5 of the Annual Report, the steady growth in Group profit can be attributed to its strong revenue growth this year as well as impressive rates of exclusive and home brands product penetration that supported the profit margins.

- (a) Please explain how the Group was able to register a strong revenue growth as compared to the preceding year?

Reply:

The strong revenue growth charted in last financial year is resulted from multiple efforts put in by our team:

- We have effectively executed our marketing strategy by implementing a series of aggressive and attractive A&P mechanics including monthly thematic sales and various vouchers promotion.*
- Our Big Cut campaign by offering very competitive pricing on fast moving, popular health and beauty items has successfully retain our existing huge regular customer base and attracting new customers.*

- *Some of our Exclusive brands and home products has established a steady stream of followers and users resulting in strong growth of revenue in this category.*
 - *Our newly launched digital customer loyalty program via mobile app has received overwhelming response from our existing and new customers, this has allowed us to roll out more targeted and effective marketing campaign to reward our regular members resulting in more frequent patronage and higher spending from our regular members.*
 - *We have intensified our training program on enhancing customer service level at our frontline staffs and offering extra value added pharmacy care service has resulted in higher customer satisfaction level and translate into higher sales.*
- (b) Please elaborate on the impressive rates of exclusive and home brands product penetration that supported the profit margins and whether it is sustainable going forward.

Reply:

Throughout our exclusive brand selection and Home Brand product development process, we have taken into account the market demand and study on the product category trend from the commercial perspective point of view. In addition to that, we always involve our pharmacist team to contribute their professional input in terms of efficacy, safety and evidence-based results of those products for the best interest of our patients and customers. We clearly understood that the blend of both professional and commercial value are equally important in exclusive product selection and development.

We believed that the product features are of high standard to meet the pharmacist team expectation, fit well into their professional practice, and thus create excellent outcome that lead to customer satisfaction. The Compound Annual Growth Rate (CAGR) of this exclusive and home brand product's group sale was 74.5% in the past 3 years, and its Profit Margin % is improving every year.

By offering high quality and cost effective products that meeting the customers' needs, we are confident that this exclusive brand strategy is sustainable.

2)

On Page 6 under the MD&A, it was stated that specifically, the Group shall expand the depth and width of its "Big Cut" campaign by increasing its price reduction items to 1,200 SKUs from 800 SKUs.

- (a) In the light of increasing competitiveness with more players and increasing outlets, how will Caring position itself to remain ahead?

Reply:

BIG CUT products are usually consists of those which are top selling, fast moving, nationwide brand and could be available in multiple distribution channels. We have adopted Every Day Low Price (EDLP) strategy on BIG CUT items, and its pricing are regularly being reviewed and surveyed by our mystery shopper team at our competitor stores. We understand that our present market is extremely promotion driven, as such expanding BIG CUT items are important to attract new customers and increase foot traffic to our stores.

To stay ahead in competition, "BIG CUT" campaign was not only actively being promoted in our conventional brick-and-mortar setting, but we have also actively promoted it via digital marketing approach and various online platforms.

- (b) To what extent will Caring reduce the price on more SKUs and what is the approximate targeted numbers, if any?

Reply:

We will ensure that our Big-Cut items' price point is comparable with other market players and attractive to our customers. We target to achieve 1,000 BIG CUT items by end of first half of this Financial Year 2019, and achieve 1,200 BIG CUT items by end of this Financial Year.

3)

Please share on the progress of online sales vis-à-vis conventional sales?

What is the penetration rate of online sales and what is the prospect going forward?

Reply:

For the year ended 31 May 2018, the revenue generated from our own e-store and other market places contributed approximately 1% of the Group's total revenue. In view of the rapid growth of technology, Caring also places significant emphasis on online sales in addition to the conventional sales. We acknowledges the importance of e-commerce nowadays and thus make best of our current digital portal to provide a seamless shopping experience for our customers.

We are determined to continue increase our e-commerce sales weightage against our Group's total revenue. We shall pay more attention and focus in growing our own e-store as compared to other market places. We shall employ Big Data analytics to analyse online customer behavior and their spending patterns that enable us to reward the most valuable customers.

4)

We refer to the Financial Highlights shown on Page 3 of the Annual Report and note that the disclosure of data was only for 3 financial years.

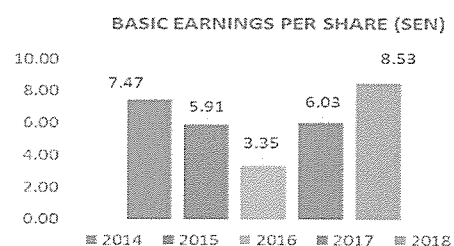
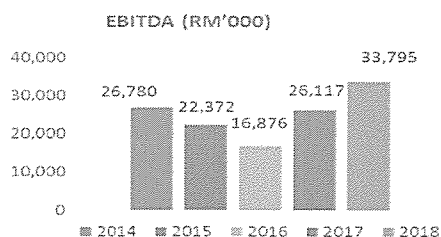
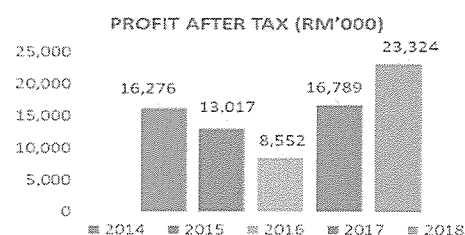
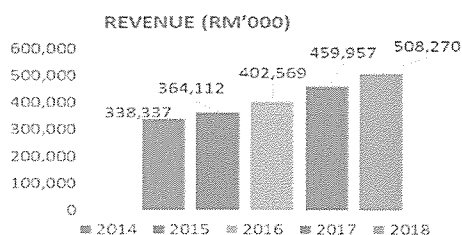
To be more useful and also to provide better analysis and trending, it is recommended that there should be a disclosure of data for at least 5 years. The disclosure should also include other useful and relevant data such as cash balances, borrowings, dividends per share declared, dividend pay-out ratio and net assets per share.

We hope the Board will take note of the recommendation.

Reply:

We take note of the above recommendation and will present the financial highlights for 5 years in Annual Report 2019 onwards.

Below is the 5 years financial highlights from financial year 2014 to 2018.



5)

As responded on Page 55 of the Annual Report, all internal audit activities in FY2018 were outsourced to an independent assurance provider, NGL Tricor Governance Sdn Bhd ("NGL Tricor") and the total costs incurred amounted to RM32,000.

Considering that Caring is not really a small company with group revenue exceeding the half a billion ringgit mark and with 115 outlets nationwide, the relatively low internal audit cost may result in a very limited scope of internal audit work being carried out which in turn may compromise the auditing of high risk areas.

The Board especially the Audit and Risk Management Committee should review the adequacy of the scope of the internal audit, particularly in the light of increasing revenue and size of operations with the expanding network of outlets.

Reply :

Before engaging NGL Tricor as our internal auditor, a list of internal audit projects was presented by NGL Tricor, detailing down areas and scope of work to be covered. Throughout the years, there are various internal audit projects carried out by NGL Tricor involving all departments under Caring Group, such as procurement category functions, warehouse & logistic management, IT general controls, retails & operations, inventory management, budget & financial reporting process, Human Resource and GST accounting. NGL Tricor also ensure that recommendation and action plans have been taken by Caring to address those findings highlighted.

In addition to the works performed by NGL Tricor, our Operation Team, Merchandising Team and Pharmacist Practice Team also work collaboratively to conduct periodic store audits to ensure our outlets are fully adhere and comply to our internal Standard Operating Policies and Procedures.

6)

We noted that, on Page 14 to the Financial Statements on Page 111 of the Annual Report, there was a substantial increase in money market funds from RM25.9 million in FY2017 to RM45.6 million in FY2018.

What was the reason for the Group to increase significantly its investments in money market funds instead of using the funds to reduce significantly its term loans which were charged higher interest rates (4.59%) than the returns earned (1.62% to 3.91%) from the money market funds?

Reply:

In relation to the term loans, it is a flexi-loan account where interest expenses will only be charged if the funds placed in the flexi-loan account lower than the outstanding loan amount. Throughout the financial year ended 31 May 2018, the Company has placed sufficient funds to cover the outstanding loan amount, hence there is no interest expenses incurred.

With the remaining excess cash, we decided to invest in money market fund which generated a total interest income of approximately RM1.74 million during the financial year.

Corporate Governance Matters

1)

The Company in its Corporate Governance (CG) Report has stated that it has applied Practice 4.1 of MCCG which states that at least half of the Board comprises independent directors. The Company has not applied the Practice as the Board comprises seven (7) directors of whom only two (2) are independent directors.

Please take note of this.

Reply:

We acknowledge the inadvertent error in the disclosure made in CG Report whereby there is a departure from Practice Note 4.1.

As can be seen in the explanation stated in the CG Report as well as those in the Principle A(II), Section 4.1 of the CG Overview Statement on page 39 of the Annual Report 2018, the Board has reiterated that it has deferred the implementation of recommendation of the Practice Note 4.1 whereby the Board shall comprise at least half of Independent Directors to the following year.

Notwithstanding the Company is a non-large company under the Code, the Board also further reiterated that it will, through the Nomination Committee endeavor to identify suitable candidates with the relevant market and industry knowledge for the proposed appointment as Independent Non-Executive Director(s) of the Company from time to time.

2)

The Company in its CG Report states that it has adopted Step Up Practice 4.3 of MCCG. However, in the explanation column on the application of Step Up Practice 4.3, it is stated that "upon completion of the nine years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. In the event such Director was to retain as an Independent Director, the Board would have to justify in the notice convening the Annual General Meeting and seek shareholders' approval the retention of such Independent Director at every Annual General Meeting." This is contrary to Step Up Practice 4.3 which does not provide for any extension of tenure beyond the 9-year tenure of INEDS.

Please take note of this.

Reply:

We acknowledge the inadvertent error in the disclosure made in CG Report whereby there is non-adoption of Practice Note 4.3 (a step up practice).

As can be seen in the explanation stated in the CG Report as well as those in the Principle A(II), Section 4.2 of the CG Overview Statement on page 40 of the Annual Report 2018, the Company has already adopted a nine years policy for Independent Non-Executive Directors as well as two tier voting process for retention of such independent directors after the twelfth year.

3)

The current composition of female directors stands at 14%. Practice 4.5 of MCCG requires the board to disclose in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. Please clarify if a policy on gender diversity has been formalized and disclosed.

Reply:

Our ex-Non Independent Non-Executive Director, Datin Rashidah has resigned on 15 August 2018. The Board is supportive of the 30% female representation on the Board as set out in Practice 4.5 of MCCG and recognises that diversity is critical to a well-functioning Board and an essential measure of good governance. Female representation will be considered when a vacancy arises and/or suitable candidates are identified. However, the appointment of a new Board member will not be guided solely by gender but will also take into account the skills-set, experience and knowledge of the candidate.

4)

The Company in its CG Report states that it has departed from Practice 7.1.

This is in breach of Appendix 9C, Part A (11) of the Main Market Listing Requirements ("MMLR") which states that the remuneration of directors of the listed issuer (including the remuneration for services rendered to the listed issuer as a group) be disclosed on a named basis, stating the amount received or to be received from the listed issuer and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) for each director.

Please take note of this to comply with the Listing requirements.

Reply:

We take note of the non-disclosure of remuneration on a named basis as required under the Main Market Listing Requirements and shall make the relevant disclosure in the next Annual Report.

5)

The Company in its CG Report states that it has applied Practice 11.2 of MCCG which relates to Integrated Reporting ("IR"). The Company has not applied the Practice.

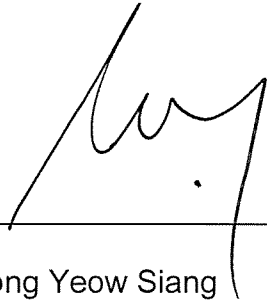
Please take note.

Reply:

We take note of your concern and will strive to further enhance our disclosure in material sustainability matters and fulfil the requirements and best practice in preparing the Sustainability Statement under the Sustainability Reporting Guide ("this Guide") issued by Bursa Malaysia Securities Berhad.

Thank you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chong Yeow Siang', is written over a horizontal line.

Chong Yeow Siang
Managing Director
Caring Pharmacy Group Berhad