

Our Ref. : PHARMA/SD/PB/MSWG/2021/175/MY
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Minority Shareholder Watchdog Group
11th Floor, Bangunan KWSP
No.3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

(Attn: Mr. Devanesan Evanson, Chief Executive Officer)

**23rd ANNUAL GENERAL MEETING (AGM) OF PHARMANIAGA BERHAD (Pharmaniaga)
TO BE HELD ON 16 JUNE 2021**

We thank you for your letter which was received via email on 9 June 2021. Our response to your enquiries are set out below:

Operational and Financial Matters

1. The Company entered into an agreement with the Government of Malaysia in March 2021 to supply 12 million doses of Sinovac COVID-19 vaccine to be filled and finished at its small volume injectable plant in Puchong (page 51 of AR 2020).

- a) What is the capital investment made by the Company to undertake this project?

Our response:

To repurpose the existing facility to cater to the manufacturing requirements of COVID-19 fill-finish, the plant undertook investment of approximately RM3 million.

- b) What is the expected contribution to the Company's profitability in FYE 2021?

Our response:

We foresee a positive contribution to the Company's profitability in FYE 2021. This will be announced in our quarterly submission to Bursa.

- c) Is the Company in negotiations with the Government to increase the supply of the Sinovac vaccine? If yes, what is the expected increase?

Our response:

Pharmaniaga is currently focused on delivering its obligation to deliver 12 million doses of Sinovac COVID-19 vaccine to the Government before any new negotiations can take place for additional quantity.

Sinovac COVID-19 vaccine has received emergency approval for use in children between 3 to 17 years of age from the Chinese authority. Pharmaniaga will pursue approval from the authorities for similar use in Malaysia. Since this is the first vaccine to be approved for ages 3 and above, we foresee potential increase in supply request from the Government.

2. Pharmaniaga's contract with the Malaysian Government for the provision of medicines and medical supplies will expire in November 2024. The Company is looking for new avenues of growth both in the domestic and international markets (page 51 of AR 2020).

What are the Company's plans in developing new growth areas both in the domestic and international markets?

Our response:

Pharmaniaga's scope under the Concession Agreement is for the provision of logistics and distribution services to all Ministry of Health's facilities. Appointment of suppliers for all medicines and medical supplies including from Pharmaniaga's own product lines are decided by the Government upon completion of a tendering exercise.

With Government being the largest purchaser of medicines and medical supplies, Pharmaniaga will continue to participate in future tender exercises for the existing portfolio of drugs as well as newer product list approved by regulatory agency.

New growth areas are in niche product manufacturing with the recently announced Halal Vaccine production. Other growth areas are into nutraceutical including supplements and Over-the-counter-products. The roadmap will also include expansion into international markets including Europe, Middle East and the African continent.

3. The Company is a dominant player in the Halal pharmaceutical market which offers great potential as Halal medicines gain in popularity in usage around the world.
- a) What is the Company's market share of the Halal pharmaceuticals market in terms of percentage and value in FYE 2020?

Our response:

Pharmaniaga's manufacturing plant produces prescription drugs, Over-the-counter medicines and supplements. Whilst all our plants are certified Halal, the law prohibit labelling prescription drugs with the Halal logo.

We are currently holding RM250 million or 20% of the Halal pharmaceutical market share in Malaysia. The ratio is expected to increase with the completion of our Vaccine facility in 2022.

- b) What are the Company's strategies in developing its Halal pharmaceutical product offerings?

Our response:

Halal pharmaceutical requires careful inspection of Active Product Ingredients (API) and other raw materials prior to the plant manufacturing of the products. This will continue to be adhered to at all times.

Pharmaniaga has a rolling 10-year plan for new product development which not only focuses on new products in demand, the R&D team will also focus to source for Halal API and raw materials from reputable partners. This strategy will ensure new produce are Halal at the onset.

Pharmaniaga is also moving into niche manufacturing with vaccine facility being first in the plan. Once completed, the plant will be the first halal certified vaccine plant in the world.

4. Pharmaniaga's Indonesian logistic and distribution arm, PT Millennium Pharmacon International TBK (MPI) registered a 3% decline in sales in FYE 2020 despite adding on 33 MPI branches during the year (page 54 of AR 2020).

- a) What were the reasons for the decline in sales despite having the additional branches?

Our response:

Pharmaniaga's strategy was to add one or two branches a year to serve new areas with potential business growth. In 2020, only one branch in Tegal, West Java was opened bringing the total to 33 branches.

Sales of Ethical Drugs contributed 70% of MPI total revenue. During COVID-19 pandemic in 2020, the demand for ethical drugs reduced as the number of patients visiting the public and private hospitals dropped tremendously. In other words, regular patients were avoiding these premises in order to prevent themselves from getting infected. Hospitals were considered high risk areas

Since Indonesia practices dispensing separation, number of prescriptions issued by doctors decreased, resulting in lower purchases of drugs by pharmacies from all the distributors, including MPI.

- b) The Indonesian market offers huge potential to the Company due to its demography. What are the steps the Company plans to take to increase its sales in this huge market?

Our response:

Due to the COVID-19 pandemic and New Normal changes, MPI embarked in “Go Digital” and “Go Virtual” digitalisation programs. These programs were implemented to provide easy access to products and services online. MPI is strategising to increase the market accessibility and its product availability via online channels or various e-Commerce platforms.

Drugs and consumables manufacturers or Principals will be the focus to secure larger market share. Focus includes improving service levels to existing principals, adding new principals with high demand products and potentially adding new branches in areas not served but has high demand.

5. The Company incurred Non-Audit Fee of RM1.3 million in FYE 2020 (FYE 2019: Nil) (page 168 of AR 2020).

What is the nature of this fee?

Our response:

The non-audit fee of RM1.3 million was the fee paid to Messrs PricewaterhouseCoopers PLT on the Business Sustainability Strategy Post COVID-19 for the Group.

6. Impairment loss on receivables increase significantly from RM1.6 million in FYE 2019 to RM3.9 million in FYE 2020 (page 168 of AR 2020).

- a) What was the reason for the substantial increase in impairment?

Our response:

The increase in impairment loss on receivables was mainly due to the provision made on receivables from customers of PT Millennium Pharmacon Tbk in Indonesia.

- b) How much of the impairments have been recovered to-date?

Our response:

We have recovered approximately RM1.7 million in 2020.

c) What percentage of these impairments are expected to be non-recoverable?

Our response:

Approximately 60% are expected to be non-recoverable. However, we will put various effort on the recoverability of the debt.

d) Are impairment expected to increase, going forward?

Our response:

Moving forward, we expect to minimise the impairment loss.

Should there be any further inquiries or clarification, please do not hesitate to contact our Puan Wan Intan Idura Wan Ismail (idura@pharmaniaga.com) at 03-3342 9999 ext. 206 or Syaruzaimi Yusof (syaruzaimi@pharmaniaga.com) ext. 258.

Thank you.

Yours faithfully,
For and on behalf of,

PHARMANIAGA BERHAD

DATUK ZULKARNAIN MD EUSOPE
Managing Director