pharmaniaga

NEW HEIGHTS OF EXCELLENCE

NIGELLA THERAPY

ROYALE PHARMA

ActiMol

citrex

Sweet ROYALE

KAMI SAYANG KAMU
SKUAD OPERASI SIHAT

ANNUAL REPORT 2017

contents

rationale

Continuously delivering on our promises, Pharmaniaga Berhad will consistently achieve new heights of excellence as a provider of quality products and services. Leveraging on the synergistic strengths of our diversed business solutions, we are focused on ensuring sustainable growth into the future.

vision

the **PREFERRED PHARMACEUTICAL** brand in **regional markets**

mission

provide **QUALITY PRODUCTS** and superior services by **professional, committed** and **caring employees**

core values

- **RESPECT** · **INTEGRITY**
- **TEAMWORK** · **EXCELLENCE**

ABOUT US

As the largest integrated pharmaceutical group in Malaysia, Pharmaniaga Berhad has blazed a trail within the healthcare industry as a provider of quality products and services. Listed on the Main Board of Bursa Malaysia and having established itself as a leader in the local market, Pharmaniaga also has a growing global presence.

Our core businesses span across a wide spectrum of the industry. This includes logistics and distribution, manufacturing of generic pharmaceuticals and medical devices, sales and marketing as well as distribution of medical products and hospital equipment. Drawing upon the synergies of these activities, Pharmaniaga has expanded its reach to Malaysians through the establishment of community pharmacy.

The heart of our corporate philosophy is driven by our motto, *Passion for Patients*. Above all, we emphasise on delivering our promises to our clients with the highest standards of excellence, as we seek to create a lasting legacy of doing business with a conscience.

At A Glance

REVENUE
RM2.3 BILLION

DIVIDEND
19 SEN

EBITDA
RM148 MILLION

PROFIT AFTER TAXATION
RM55 MILLION

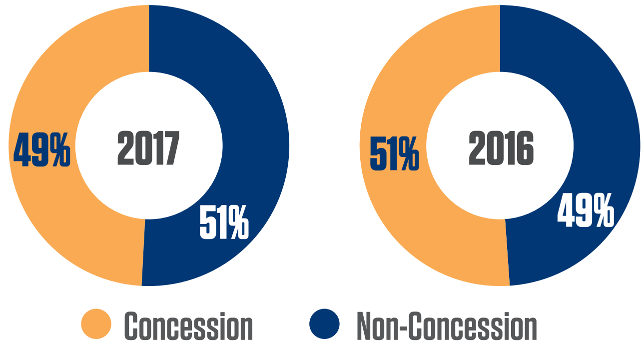
CAPEX
RM39 MILLION

PROFIT BEFORE TAXATION
RM73 MILLION

TOTAL ASSETS
RM1.6 BILLION

EMPLOYEES
3,322

2017
Key Developments



32%
CONTRIBUTION FROM OVERSEAS OPERATIONS TO GROUP'S REVENUE

>30
NEW PRODUCTS REGISTERED

>60
PRODUCTS SECURED HALAL CERTIFICATION

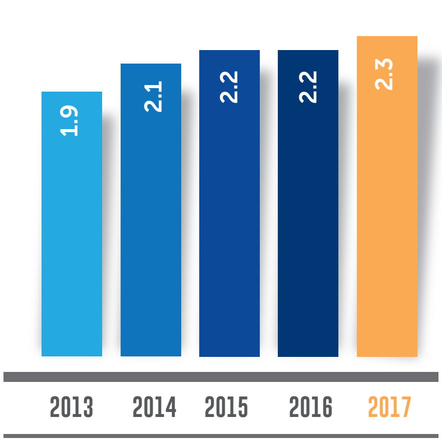
19%
CONTRIBUTION FROM PRIVATE BUSINESS SECTOR TO GROUP'S REVENUE

IMPLEMENTATION OF SAP S4/HANA
(HIGH PERFORMANCE ANALYTIC APPLIANCE) ACROSS ALL MANUFACTURING SITES IN MALAYSIA

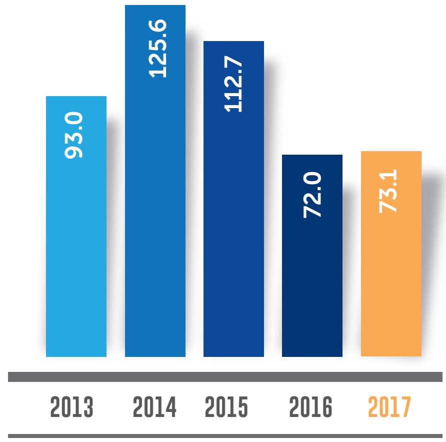
5-Year Financial Highlights

All figures are in RM Million unless otherwise stated		2017	2016	2015	2014	2013
FINANCIAL PERFORMANCE						
Revenue		2,324.0	2,189.0	2,189.3	2,122.9	1,946.6
Profit before taxation		73.1	72.0	112.7	125.6	93.0
Profit after taxation		55.1	45.9	84.6	94.2	56.8
Net attributable profit		53.8	45.6	84.0	93.8	55.2
Earnings per share	sen	20.7	17.6	32.5	36.2	21.3
Return on equity	%	10.2	8.6	15.9	18.5	11.5
Return on assets	%	6.1	6.6	9.3	12.0	9.2
Return on revenue	%	4.4	4.8	5.8	6.6	5.5
DIVIDENDS						
Dividend payout	%	91.6	90.9	92.4	77.2	75.1
Dividend payment		49.3	41.5	77.7	72.5	41.5
Net dividend per share	sen	19.0	16.0	30.0	28.0	16.0
Dividend yield	%	4.1	3.0	4.7	6.1	3.6
Dividend cover	times	1.1	1.1	1.1	1.3	1.3
GEARING						
Borrowings		444.3	616.9	400.2	201.1	199.9
Gearing	times	0.8	1.2	0.8	0.4	0.4
Interest cover	times	3.5	3.1	5.9	8.4	7.3
OTHER FINANCIAL STATISTICS						
Net assets per share	sen	203	205	204	203	188
Price earning ratio	times	22.2	30.1	19.6	12.6	20.9
Paid up share capital		146.2	129.7	129.4	129.4	129.4
Shareholders' equity		528.0	530.6	529.4	526.5	487.6
Total equity		547.1	559.4	560.0	552.0	503.3
Total assets		1,607.8	1,683.1	1,495.6	1,242.7	1,111.1

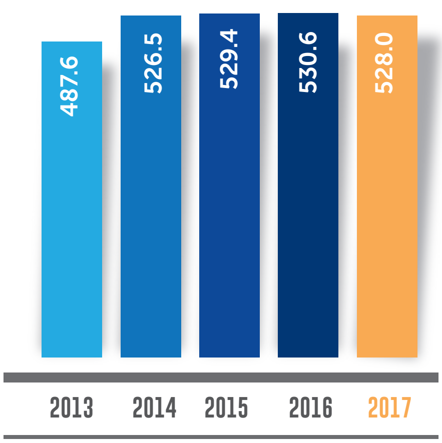
REVENUE
(RM) Billion



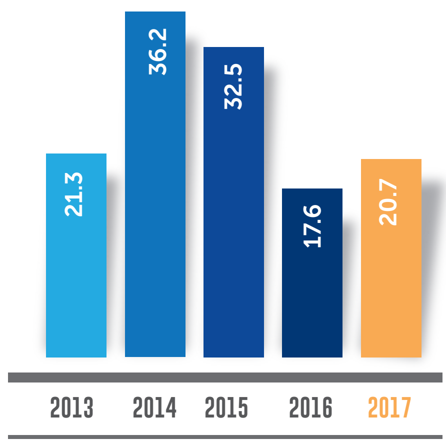
PROFIT BEFORE TAXATION
(RM) Million



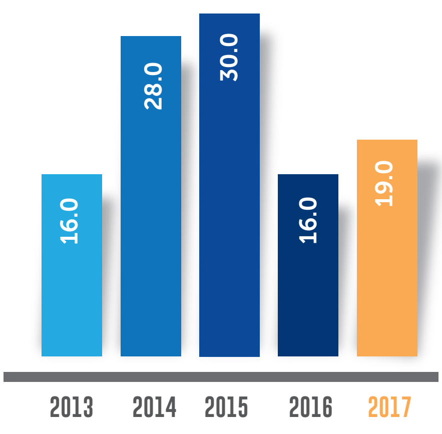
SHAREHOLDERS' EQUITY
(RM) Million



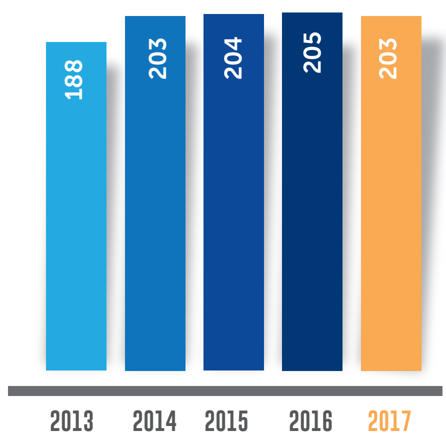
EARNINGS PER SHARE
(sen)



NET DIVIDEND PER SHARE
(sen)



NET ASSETS PER SHARE
(sen)



CORPORATE INFORMATION

BOARD OF DIRECTORS

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
Non-Independent Non-Executive Chairman

DATO' FARSHILA EMRAN
Managing Director

MOHD SUFFIAN HAJI HARON
Senior Independent Non-Executive Director

DANIEL EBINESAN
Non-Independent Non-Executive Director

IZZAT OTHMAN
Independent Non-Executive Director

LIEUTENANT GENERAL DATO' SERI PANGLIMA DR SULAIMAN ABDULLAH (RETIRED)
Independent Non-Executive Director

COMPANY SECRETARY
Tasneem Mohd Dahalan (LS 0006966)
Tel : +603-2141 9044
Fax : +603-2144 3016

STOCK EXCHANGE LISTING
Main Market of Bursa Malaysia Securities Berhad
Sector : Trading/Services
Stock Code : 7081

REGISTERED ADDRESS
28th Floor, Menara Boustead
No. 69 Jalan Raja Chulan
50200 Kuala Lumpur
Tel : +603-2141 9044
Fax : +603-2141 9750

BUSINESS ADDRESS
No. 7, Lorong Keluli 1B
Kawasan Perindustrian
Bukit Raja Selatan
Seksyen 7, 40000 Shah Alam
Selangor Darul Ehsan
Tel : +603-3342 9999
Fax : +603-3341 7777
Website: www.pharmaniaga.com
Emails:
i) info@pharmaniaga.com
ii) customercare@pharmaniaga.com
iii) alert@pharmaniaga.com

PRINCIPAL BANKERS
Standard Chartered Bank Malaysia Berhad
Bank Islam Malaysia Berhad
Hong Leong Islamic Bank Berhad
Affin Islamic Bank Berhad

AUDITORS
Messrs. PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146)
Chartered Accountants
Level 10, 1 Sentral, Jalan Rakyat
Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur

SHARE REGISTRAR
Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Tel : +603-2783 9299
Fax : +603-2783 9222

AUDIT COMMITTEE
Chairman
Mohd Suffian Haji Haron
Members
Izzat Othman
Daniel Ebinesan
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

NOMINATION COMMITTEE
Chairman
Mohd Suffian Haji Haron
Members
Tan Sri Dato' Seri Lodin Wok Kamaruddin
Izzat Othman

REMUNERATION COMMITTEE
Chairman
Mohd Suffian Haji Haron
Members
Tan Sri Dato' Seri Lodin Wok Kamaruddin
Izzat Othman

SUSTAINABILITY COMMITTEE
Chairman
Daniel Ebinesan
Members
Mohd Suffian Haji Haron
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

FINANCIAL CALENDAR

FINANCIAL YEAR

1 JANUARY
to
31 DECEMBER
2017

ANNUAL REPORT

Issued
13 March 2018

ANNUAL GENERAL MEETING

To be held
11 April 2018

RESULTS

First Quarter
Announced 16 May 2017

Second Quarter
Announced 16 August 2017

Third Quarter
Announced 15 November 2017

Fourth Quarter
Announced 27 February 2018

DIVIDENDS

First Interim
Announced
16 May 2017

Entitlement date
31 May 2017

Payment date
7 June 2017

Third Interim
Announced
15 November 2017

Entitlement date
4 December 2017

Payment date
15 December 2017

Second Interim
Announced
16 August 2017

Entitlement date
5 September 2017

Payment date
18 September 2017

Fourth Interim
Announced
27 February 2018

Entitlement date
15 March 2018

Payment date
28 March 2018

Awards & Recognitions

AWARDS

1. **Anugerah Majikan Berdaya Saing Glokal**
   Kementerian Sumber Manusia
2. **Anugerah Majikan 1Malaysia (Syarikat Besar/GLC)**
   Kementerian Sumber Manusia

AWARDS

3. **The BrandLaureate Best Brands Award**
   Most Sustainable Brand-Integrated Healthcare Solutions
   2016-2017
   The BrandLaureate

4. **Malaysia's 100 Leading Graduate Employers 2017**
   Pharmaceutical Sector
   GTI Media

5. **AON Best Employers Malaysia Awards 2017**
   Commitment to High Performance Culture
   (Pharmaniaga Logistics Sdn Bhd)
   AON

6. **AON Best Employers Malaysia Awards 2017**
   Commitment to Employer Brand
   (Pharmaniaga Research Centre Sdn Bhd)
   AON

7. **Frost & Sullivan Malaysia Excellence Awards 2017**
   Pharmaceutical Company of the Year
   Frost & Sullivan

8. **Asia Corporate Excellence & Sustainability Awards 2017**
   Woman Entrepreneur of the Year
   MORS Group

9. **Asia Corporate Excellence & Sustainability Awards 2017**
   Top Companies in Asia
   MORS Group

Board of Directors

Dato' Farshila Emran

Tan Sri Dato' Seri Lodin Wok Kamaruddin

Mohd Suffian Haji Haron

Daniel Ebinesan

Izzat Othman

Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

Profile of Directors

Tan Sri Dato' Seri Lodin Wok Kamaruddin

Chairman

Age : 68
Gender : Male
Nationality : Malaysian

Date of first appointment to the Board: 29 April 2011
Date of last re-election: 29 March 2016

Board Committee(s)
- Member of Nomination Committee
- Member of Remuneration Committee

Board Meeting attended in the financial year: 4/4

Qualification(s)
- Bachelor of Business Administration and Master of Business Administration, University of Toledo, Ohio, United States of America
- Member of Asian Institute of Chartered Bankers (AICB)

Directorship in other public listed companies
- Boustead Holdings Berhad
- Boustead Plantations Berhad
- Boustead Heavy Industries Corporation Berhad

Directorship in public companies
- UAC Berhad
- MHS Aviation Berhad
- Boustead Properties Berhad
- Badan Pengawas Pemegang Saham Minoriti Berhad
- Affin Hwang Asset Management Berhad

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Tan Sri Dato' Seri Lodin is Chief Executive of Lembaga Tabung Angkatan Tentera and Deputy Chairman/Group Managing Director of Boustead Holdings Berhad. He is also Chairman of Boustead Heavy Industries Corporation Berhad. In addition, he is Vice Chairman of Boustead Plantations Berhad.

He has extensive experience in not only managing a provident fund but also in the establishment, restructuring and management of various business interests ranging from banking, plantation, trading, financial services, property development to oil and gas, pharmaceuticals and shipbuilding.

Dato' Farshila Emran

Managing Director

Age : 51
Gender : Female
Nationality : Malaysian

Date of first appointment to the Board: 25 March 2011
Date of last re-election: 31 March 2015

Board Committee(s): None

Board meeting attended in the financial year: 4/4

Qualification(s)
- Master of Business Administration (C) *Universiti Utara Malaysia* (UUM)
- Diploma in Office Management, *Universiti Teknologi MARA* (UiTM)

Directorship in other public listed companies: None

Directorship in public companies: None

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Dato' Farshila Emran began her career as a tutor in UiTM before she became the Assistant Representative of SEVES Sediver France, a French public listed high voltage transmission equipment company in Malaysia, in 1990. Then, she was promoted as the Malaysian Representative of the successful company until 2001. Within the same year, she established Idaman Pharma Sdn Bhd and started her venture in the highly regulated pharmaceutical industry.

In 2005, she took the bold step by taking over a pharmaceutical plant in Sungai Petani, Kedah and established Idaman Pharma Manufacturing Sdn Bhd (IPMSB). Subsequently, she acquired another plant in Seri Iskandar, Perak. Under her leadership, IPMSB developed a synergistic partnership with Boustead Holdings Berhad (Boustead) and facilitated the acquisition of Pharmaniaga Berhad by Boustead in 2011. Dato' Farshila was subsequently appointed as the Managing Director of Pharmaniaga Berhad and since then, she has successfully enhanced the value of the Company.

She has won several awards including Woman Entrepreneur of the Year 2017 by Aces Corporate Excellence & Sustainability Awards, Masterclass Excellence Award for Woman CEO of the Year at Utusan Business Awards 2015; MBA Industry Excellence Award - Health Services by The ASEAN Business Advisory Council Malaysia in 2013 and *Anugerah Kesatria Puteri Korporat*, an initiative by the Ministry of Women, Family and Community Development, Malaysia in 2012. She was also conferred with Honorary Mastership by Cyberjaya University College of Medical Sciences in 2016. Dato' Farshila sits on *Universiti Kuala Lumpur's* Industrial Advisory Board and also a member of Global Science & Innovation Advisory Council Steering Committee for Malaysia.

Mohd Suffian Haji Haron

Senior Independent Non-Executive Director

Age : 72
Gender : Male
Nationality : Malaysian

Date of first appointment to the Board: 29 April 2011
Date of last re-appointment: 6 April 2017

Board Committee(s)
- Chairman of Audit Committee
- Chairman of Nomination Committee
- Chairman of Remuneration Committee
- Member of Sustainability Committee

Board Meeting attended in the financial year: 4/4

Qualification(s)
- Bachelor of Economics, University of Malaya
- Master Business Administration, University of Oregon, United States of America

Directorship in other public listed companies: None

Directorship in public companies
- Affin Bank Berhad
- Affin Islamic Bank Berhad
- Lonpac Insurance Berhad

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Encik Suffian has had a distinguished career in the Malaysian Civil Service, starting as a Diplomatic and Administrative Officer, attached to the Implementation and Coordination Unit of the Prime Minister (PM) Department and subsequently to the Ministry of Public Enterprises. Whilst at the PM Department, he was assigned as the special assistant to the Special Economic Adviser to the Government. He served the Board of Directors of Fraser's Hill Development Corporation, the State Development Corporations of Perak, Pahang and Terengganu as well as the Board of Directors of Bank Pembangunan Malaysia, Kompleks Kewangan Malaysia, HICOM and the Council of MARA.

After 13 years of service, he left the Government Service to serve a Government Linked Company involved in international business, after which he ventured on his own to be the Managing Director of an Insurance Broking Company. Amongst his other involvements after that were in the securities industry and asset management sectors. He has also served as a Director of Hitachi Sales Malaysia, Meiden Electric Engineering Malaysia (Japan), Far East Computer (India) and Affin Discount Berhad. He also brings with him vast experience in general trading, power generation and transmission, aircraft maintenance as well as the oil and gas services industries.

Daniel Ebinesan

Non-Independent Non-Executive Director

Age : 72
Gender : Male
Nationality : Malaysian

Date of first appointment to the Board: 25 March 2011
Date of last re-appointment: 6 April 2017

Board Committee(s)
- Chairman of Sustainability Committee
- Member of Audit Committee

Board Meeting attended in the financial year: 4/4

Qualification(s)
- Fellow of the Chartered Institute of Management Accountants (CIMA)
- Life Member of the Malaysian Institute of Certified Public Accountants (MICPA)
- Member of Malaysian Institute of Accountants (MIA)

Directorship in other public listed companies: None

Directorship in public companies
- MHS Aviation Berhad

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Daniel joined Boustead Holdings Berhad in April 1974 as the Group Accountant. In January 1982, he was promoted to Group Chief Accountant and subsequently in January 1993, he was promoted as the General Manager, Finance & Administration. In July 1996, he assumed the role of Chief Financial Officer and subsequently appointed as Group Finance Director until October 2017. He is now the Advisor, Group Finance of Boustead Holdings Berhad. He is responsible for all financial matters including acquisition of strategic businesses, treasury, risk management strategies and formulation of the Boustead Group's financial policies and tax planning.

He is a member of the Board of Trustees of *Kumpulan Wang Simpanan Kakitangan Estet Malaysia* since 1996.

Izzat Othman

Independent Non-Executive Director

Age : 56
Gender : Male
Nationality : Malaysian

Date of first appointment to the Board: 25 March 2011
Date of last re-election: 29 March 2016

Board Committee(s)
- Member of Audit Committee
- Member of Nomination Committee
- Member of Remuneration Committee

Board Meeting attended in the financial year: 4/4

Qualification(s)
- LLB (Hons), University of Malaya

Directorship in other public listed companies: None

Directorship in public companies: None

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Izzat is a lawyer by profession. He was formerly a director of Affin Securities Sdn Bhd and BH Insurance Berhad and has vast experience relating to litigation, conveyancing and corporate matters.

He is a partner in Messrs. Azzat & Izzat Advocates & Solicitors and currently is a practising lawyer with more than 32 years of experience.

Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

Independent Non-Executive Director

Age : 62
Gender : Male
Nationality : Malaysian

Date of first appointment to the Board: 29 December 2011
Date of last re-election: 6 April 2017

Board Committee(s)
- Member of Audit Committee
- Member of Sustainability Committee

Board Meeting attended in the financial year: 4/4

Qualification(s)
- Masters of Health Planning, University of New South Wales, Sydney, Australia
- Diploma in Tropical Medicine and Hygiene, Mahidol University, Thailand
- Masters of Public Health, University of Philippines System, Manila, Philippines
- Diploma in Principle of Military Medicine, Academy of Health Sciences, Fort Sam Houston, Texas, United States of America
- Doctor of Medicine (M.D), *Universiti Kebangsaan Malaysia (UKM)*

Directorship in other public listed companies: None

Directorship in public companies: None

Any family relationship with Director and/or major shareholder of Pharmaniaga Berhad or any companies that have entered into any transactions with Pharmaniaga Berhad or its subsidiaries: None

List of convictions for offences within the past 10 years other than traffic offences, if any: None

Working experience and occupations
Lieutenant General Dato' Seri Panglima Dr Sulaiman started his career as Medical Officer with Ministry of Defence and served the Malaysian Armed Forces for more than 29 years. His last appointment with the Malaysian Armed Forces was as the Director General of Malaysian Armed Forces Health Services.

He has vast experience in the management and supervision of Malaysian Armed Forces Health Services across Malaysia. He was also involved in the development of Hospital Angkatan Tentera Tuanku Mizan Zainal Abidin. Throughout his stint with the Malaysian Armed Forces, he built good relationships with local and foreign governments as well as private sectors in the medical industry.

Senior Management Team

Profile of Senior Management Team

Dato' Farshila Emran

Managing Director

Age : 51
Gender : Female
Nationality : Malaysian

As expressed on page 17 of the Profile of Directors.

MOHAMED IQBAL ABDUL RAHMAN

Chief Operating Officer

Age : 54
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 June 2012

Working experience
Mohamed Iqbal was appointed as the Information Technology Director of Pharmaniaga in 2011 and later promoted as the Chief Operating Officer in 2012. Prior to that, he was the Head of Operations in a large facility management company in Malaysia. He has over 26 years of experience in the field of System Improvement & Operations Management in various industries. He spearheaded Pharmaniaga's implementation of business automations leading to an improved and efficient operations and customer experience.

Qualification(s)
Bachelor of Computer Science from *Universiti Putra Malaysia (UPM)*

Any directorship in public companies and public listed companies
None

Any family relationship with any director and/ major shareholder of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

NORAI'NI MOHAMED ALI

Chief Financial Officer

Age : 51
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 June 2012

Working experience
Norai'ni joined Pharmaniaga in 2001 as the Deputy General Manager of Group Finance and later promoted to Procurement Director in 2011, subsequently she was promoted as the Group Chief Financial Officer in 2012. She also sits on the Boards of local and overseas subsidiaries of Pharmaniaga Group. Prior to joining the Company, Norai'ni was attached to Opus Group Berhad, a subsidiary of UEM Group Berhad for 8 years. She is responsible for all financial matters including acquisition of strategic business, treasury and risk management strategies of Pharmaniaga Group. She has vast experience for more than 26 years in accounting and finance.

Qualification(s)
- Member of the Association of Chartered Certified Accountants (ACCA)
- Bachelor of Arts (Honours) Accounting and Finance from Liverpool John Moores University, United Kingdom

Any directorship in public companies and public listed companies
None

Any family relationship with any director and/ major shareholder of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

DATIN SHAMSINAR HJ SHAARI

Technical Director

Age : 64
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 April 2011

Working experience
Datin Shamsinar was appointed as the Technical Director for Pharmaniaga in 2011 to manage the research facilities and manufacturing plants. Previously she was the Technical Advisor for Idaman Pharma Sdn Bhd and prior to that, she was the Site Director at GlaxoSmithKline Malaysia. She has over 40 years of experience under her belt in the pharmaceutical industry.

Qualification(s)
Bachelor of Science Majoring in Pharmacology from University of London (Chelsea College), United Kingdom

Any directorship in public companies and public listed companies
None

Any family relationship with any director and/ major shareholder of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

ABDUL MALIK MOHAMED

Logistics & Distribution Director

Age : 52
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 April 2011

Working experience
Abdul Malik joined Pharmaniaga in 2003 as the Senior Manager of Information Technology (IT) and later promoted as Logistics and Distribution Director in 2011. Before he joined Pharmaniaga, he had worked for 13 years in IT related companies and undertook various professional segments namely healthcare, distribution and logistics systems. He has vast experience in logistics operations for more than 25 years.

Qualification(s)
Bachelor of Science (Honours) in Computer Science and Management from *Universiti Sains Malaysia (USM)*

Any directorship in public companies and public list
None

Any family relationship with any director and/ major of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for of the past 5 years and other particulars of any p or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

SHARIFAH FAUZIYAH SYED MOHTHAR

Regulatory Affairs Director

Age : 47
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 April 2011

Working experience
Sharifah Fauziyah was appointed as the Regulatory Affairs Director of Pharmaniaga in 2011, oversees regulatory affairs, clinical affairs, regulatory compliance and customer care. She started her career in 1995 with Procter & Gamble before joining Idaman Pharma Sdn Bhd in 2001 and became the Site Director of Idaman Pharma Manufacturing Sdn Bhd in 2005. She has more than 20 years of experience in the pharmaceutical industry.

Qualification(s)
Bachelor of Pharmacy (Honours) from *Universiti Sains Malaysia (USM)*

Any directorship in public companies and public list
None

Any family relationship with any director and/ major of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for of the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

ZULHAZRI RAZALI

Commercial Director

Age : 50
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 June 2014

Working experience
Zulhazri joined Pharmaniaga in 1994 as an Assistant Manager of Customer Care. He continued expanding his career in the Company by developing his skills and knowledge in warehouse management, supply chain and international business and sales marketing. He was promoted as the Commercial Director in 2014, oversees sales and marketing for local and international markets, including operations of PT Millennium Pharmacon International TBK in Indonesia.

Qualification(s)
- Bachelor of Science (Honours) Pharmacy from University of Manchester, United Kingdom
- Master of Business Administration from Manchester Business School, United Kingdom

Any directorship in public companies and public listed companies
None

Any family relationship with any director and/ major shareholder of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

YANG FAIRUZ ABDUL AZIZ

Corporate Services Director

Age : 45
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 September 2017

Working experience
Yang Fairuz was appointed as the Corporate Services Director in September 2017. Prior to this appointment, she was the Head of Community Pharmacy for Pharmaniaga Pristine Sdn Bhd, managing RoyalePharma Pharmacy and Vendor Development Programme. Before joining Pharmaniaga, she was attached to Schlumberger's Geosciences and Petroleum Engineering segment. Yang Fairuz has vast experience in sales, business development, operations, human resource and project management.

Qualification(s)
Bachelor of Applied Science (Honours) Majoring in Geophysics from *Universiti Sains Malaysia*

Any directorship in public companies and public list
None

Any family relationship with any director and/ major of the Company
None

Any conflict of interests with the Company
None

Other than traffic offences, any convictions for of the past 5 years and other particulars of any p or penalty imposed by the relevant regulatory bodies during the financial year, if any
None

Nurturing Leaders

Leadership is not about glorious crowning acts. It's about keeping your team focused on a goal and motivated to do their best to achieve it, especially when the stakes are high and the consequences really matter. It is about laying the groundwork for others' success, and then standing back and letting them shine.

CHAIRMAN'S STATEMENT

A Year of Solid Progress

DEAR SHAREHOLDER,

2017 WAS A YEAR OF PROGRESS FOR PHARMANIAGA BERHAD. ONCE AGAIN, WE PROVED OUR CAPACITY FOR BUSINESS SUSTAINABILITY, MARCHING AHEAD IN THE FACE OF CHALLENGING EXTERNAL CONDITIONS.

Guided by our motto, *Passion for Patients*, we ensured our business grew in line with our vision to become the preferred integrated healthcare solutions provider and ultimately, a platform for bringing quality, affordable healthcare to patients. During the year, we reinforced our business streams, advanced our Halal agenda and launched multiple products into the market to address patient needs. We also strengthened research and development (R&D) and invested our capital to drive growth, as well as achieved a significant first for our lyophilisation capabilities.

As a result, we were able to record stable earnings supported by improved contribution particularly from our overseas operations, while staying true to our purpose.

ECONOMIC LANDSCAPE

Malaysia's economy grew by 5.9% in 2017, bolstered by improvements in domestic demand and exports while the Ringgit delivered a total return of 10.1% for the 2017 fiscal year, as reported by Bank Negara Malaysia (BNM). This improvement is testament to the effectiveness of BNM's strategic measures during the year including the introduction of BNM Interbank Bills and additional foreign exchange hedging flexibilities.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
CHAIRMAN

Revenue of RM2.3 billion for the year ended 31 December 2017

During the year, we undertook a concerted effort to develop and empower high-potential employees while drawing in quality talent

FINANCIAL PERFORMANCE

Against a challenging operating environment, we are pleased to report that the Group recorded a sustained revenue of RM2.3 billion for the year ended 31 December 2017, while profit before taxation stood at RM73 million.

In line with our long-term strategy to grow our non-concession business, the segment's contribution to the Group's revenue expanded to 51%, while the concession business contributed 49%.

Cost optimisation across the board was improved during the year through profitability enhancing initiatives that had a positive impact on our liquidity position, which strengthened shareholder value.

The Group recorded a market capitalisation of RM1.2 billion while shareholders' funds stood at RM528 million as at 31 December 2017. Our gearing ratio was 0.8 times while earnings per share was 21 sen and net assets were RM2.03 per share.

DIVIDEND

In line with our commitment to enhance shareholder value, the Board of Directors declared a fourth interim dividend of 6 sen per share which will be paid on 28 March 2018 to shareholders on the register as at 15 March 2018.

This brings 2017's total dividend per share to 19 sen, with a total dividend payout of RM49.3 million. This reflects a dividend yield of 4.1% based on the closing share price for the year under review.

HUMAN CAPITAL

Pharmaniaga is committed to nurture a safe and inspiring workplace where employees can actualise their potential while contributing to the Group's growth as we capitalise on local and global prospects.

During the year, we undertook a concerted effort to develop and empower high-potential employees while drawing in quality talent. We boosted our employees' capacity to quickly adapt to the evolving demands of a constantly changing market through results-focused in-house and external training initiatives. In addition, we introduced several enhanced benefits to further incentivise our talent pool such as increased medical benefits, optical benefits and meal subsidies for selected groups of employees.

As the nation's largest listed pharmaceutical group, we aim to play a role in developing the next generation of Malaysian talents. We undertook multiple engagement programmes with local universities and continued to provide on-the-job training for fresh graduates under *Skim Latihan 1Malaysia* (SL1M), the Provisional Registered Pharmacists (PRP) initiative as well as internship programmes at our subsidiaries.

We are also proud that Pharmaniaga maintains its reputation as an in-demand employer, acknowledged both by the industry and our own employees. Our continuous employee engagement initiatives, driven by our objective to create alignment throughout the Company, has garnered us multiple industry awards, including the *Anugerah Majikan 1Malaysia* and *Anugerah Majikan Berdaya Saing Glokal* in conjunction with the National Labour Day celebration.

SUSTAINABILITY

Pharmaniaga is committed to achieving the triple bottom line of a sustainable business – economic, environmental and social. We strive to ensure that our operations create a positive impact to the community, environment, and that we conduct our business with integrity to ensure its long-term sustainability. Since 2016, we have undertaken strategic steps to strengthen and broaden our sustainability initiatives.

We formalised a Sustainability Committee comprising a Board Sustainability Committee and a Sustainability Management Committee that set clear benchmarks for sustainable development. We also took the initiative to launch our Sustainability Report, which was embedded in last year's Annual Report.

Pharmaniaga is committed to achieving the triple bottom line of a sustainable business – economic, environmental and social

CLOSE TO
RM3 million
was invested for Pharmaniaga's corporate responsibility efforts during the year

Close to RM3 million was invested for Pharmaniaga's corporate responsibility efforts during the year. Key highlights included our flood relief efforts in Penang, Kedah, Kelantan and Sabah, where we mobilised resources and volunteers to assist victims, conduct health checks and clean homes in addition to donating food and household items.

As part of our effort to contribute towards the development of a healthier Malaysia, our *Skuad Operasi Sihat Negaraku* conducted 48 programmes nationwide to provide greater healthcare accessibility to the public.

We are passionate to ensure that our growth is reflected in the progress of the industry we operate within, which is in line with the Government's Corporate Entrepreneur Responsibility initiative. To empower Malaysian entrepreneurs, we have entered into strategic partnerships with Paradigm Industry Sdn Bhd and Bio-Collagen Technologies Sdn Bhd, facilitating the transfer of industry know-how and management expertise to nascent small businesses.

Our Bumiputera Pharmacy Development Programme enables pharmacists to improve their entrepreneurial skills and expand their business network, creating more opportunities for success.

Through our RoyalePharma Alliance Programme, more than 130 members across the nation are offered a wider range of products through central procurement at competitive prices.

Our vendors are integral to the Group's growth and we make it a priority to ensure that we build a strong partnership with our vendors through various initiatives throughout the year. We are glad to note that four of our vendors were honoured with Regional and National Champions 2017 Awards by Ministry of International Trade and Industry (MITI).

Pharmaniaga is proud with the progress made, while at the same time we are conscious that there is more to be done. We will continue to improve our sustainability efforts in demonstration of our long-term commitment to the society, environment and our economic ecosystem.

This year, we are pleased to announce our inaugural stand-alone Sustainability Report where we have further outlined our efforts in the three key areas of economic, environment and social impact, over the past year.

OUTLOOK

The outlook for the global economy is projected to remain steady at 3% in 2018 and 2019 according to the United Nations World Economic Situation and Prospects 2018, stemming primarily from firmer growth in some developed economies with East and South Asia remaining the world's most vibrant regions for growth. The challenge for the year ahead would be to channel this upturn into sustained growth.

The Malaysian economy is projected to grow between 5% and 5.5% in 2018 according to the International Monetary Fund, with momentum in activity expected to continue to be strong in the first half of 2018, reinforced by domestic demand and the sustained strength of global trade.

Under the 2018 National Budget, the Government allocated RM26.6 billion for the Ministry of Health, of which RM2.5 billion has been apportioned for medical supplies and RM1.6 billion for consumable and medical support items (Reference: Item 186 of Budget Speech).

The 2018 National Budget demonstrates the Government's clear emphasis on the development of the healthcare sector. As a leading pharmaceutical manufacturer in generic pharmaceutical products and medical devices in the marketplace, Pharmaniaga is well positioned to capitalise on these opportunities to drive sustained growth.

We enhanced our arsenal of tools to expand our footprint in the European Union (EU), by implementing the SAP S/4HANA (High Performance Analytic Appliance) Software across our manufacturing operations. This is a first for a Malaysian pharmaceutical company, as this state-of-the-art performance system facilitates best practices in enterprise resource management, ensuring we comfortably meet EU market requirements.

Our plant in Puchong is the first pharmaceutical plant in the country to install and commission freeze drying technology for the lyophilisation of small volume injectable pharmaceutical products. We look to further expand our small volume injectable business in the coming year.

Our progress in 2017 is testament to the long-term investments we have made over the last few years to improve scale, sustainability as well as develop new products. Driven by our research and development efforts, we are on track to deliver new product offerings to both local and overseas markets for the coming years ahead. This should further strengthen our earnings potential as we scale new heights in the pharmaceutical arena.

ACKNOWLEDGEMENT

Pharmaniaga's progress would not have been possible without the effort of so many. As we embark on another year of strong prospects, I would like to thank all who have been an integral part of our success.

My heartfelt thanks to our Board members for their support and invaluable guidance. On behalf of the Board, I would like to convey our deep appreciation for the hard work and dedication of the management and staff for their outstanding efforts during the year. I would also like to take this opportunity to congratulate our Managing Director, Dato' Farshila Emran for her Woman Entrepreneur of the Year Award 2017 as part of the Asia Corporate Excellence & Sustainability Awards (ACES). Pharmaniaga was recognised as well at the ACES, as one of only two organisations to receive the Top Companies in Asia Award.

To our shareholders, we are grateful for the immense support, which we are committed to reciprocate with enhanced shareholder value.

We would also like to thank our key client, Ministry of Health, other customers, suppliers, partners, bankers along with the relevant authorities in Malaysia and internationally, who have played an instrumental part in our achievements over the years.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
Chairman

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

MANAGING DIRECTOR'S REVIEW

New Heights of Excellence

Dear Shareholder,

We are pleased to report that 2017 was another exceptional year for Pharmaniaga Berhad – a year where we worked as a team to navigate the vagaries of uncertain market conditions while remaining focused on rallying the Group to greater heights of operational excellence. Our efforts during the year allowed us to further reinforce our position as a leader in the Malaysian pharmaceutical industry while strengthening our presence in the international marketplace.

FINANCIAL PERFORMANCE

Against an economic landscape that was largely unpredictable, we were able to build on our strong foundations to deliver a healthy financial performance in 2017. Pharmaniaga registered a solid revenue of RM2.3 billion while profit before taxation improved to RM73 million. These results were achieved on the back of disciplined cost management, strengthened operational efficiencies as well as solid teamwork within our highly capable talent pool.

In keeping with Pharmaniaga's long-term strategy and as part of our commitment to our shareholders, our gearing improved to 0.8 times from 1.2 times in previous year. We are now poised to leverage on our ever-improving balance sheet to invest in opportunities that will contribute to the enhancement of shareholder value.

During the year, we invested a total of RM39 million in capital expenditure mainly to upgrade our manufacturing equipment and facilities.

OPERATIONAL HIGHLIGHTS

Our vision, distilled in our motto *Passion for Patients*, guides every aspect of our business and drives our quest for operational excellence. Keeping this people-oriented philosophy in mind has helped us deliver a seamless experience to our customers through enhanced service levels and improved delivery time. Our performance metrics speak for themselves: we achieved 99% order fulfilment for the Ministry of Health (MOH) for the year under review and our customer satisfaction survey amongst key clientele saw majority of the respondents rating our service 'Good' and 'Excellent'.

Additionally, we fulfilled a key requirement of the concession agreement through the delivery of the Pharmacy Information System (PhIS) to all government facilities equipped with the requisite infrastructure. The PhIS provides greater operational efficiency and improves the end-user experience.

While the concession business contributed 49%, Pharmaniaga's non-concession business has grown, contributing 51% to our total revenue. This is consistent with our efforts to develop our non-concession business.

Achieved
99%
order fulfilment for MOH

REVENUE STOOD AT
RM2.3B

PROFIT BEFORE TAXATION
RM73M

Our non-concession business saw stable growth during the year, particularly in our international operations. As a result of our improved operational efficiency as well as strengthened negotiations with principals, we were able to gain favourable cost savings for our Indonesian manufacturing operations.

Pharmaniaga's Indonesian listed subsidiary, PT Millennium Pharmacon International Tbk (MPI) recorded an increase in net sales during the year with MPI's ethical products category. At the same time, our manufacturing facility in Indonesia led by PT Errita Pharma (Errita) saw a turnaround in its results this year.

With the completion of MPI's rights issue, MPI was able to utilise the proceeds to acquire a 15% equity interest in Errita. As a result, MPI leveraged on business synergies between our two investments to venture into the upstream market. This has allowed us to penetrate the Indonesian government and private hospital markets in line with the implementation of the National Health Insurance Scheme.

To improve efficiency levels, we commenced the implementation of the SAP S/4HANA system, which allowed us to standardise and automate our financial processes and reporting functions. The new system, installed at Bangi manufacturing plant, has elevated our capacity and efficiency in managing production planning and orders, quality management, delivery and product costing. We target to install this system at all our manufacturing sites in Malaysia by 2018. We also upgraded our IT infrastructure to improve processes and enhance efficiencies in our logistics division.

As a Group whose business is to help patients, it is critical that we adhere to strict quality and safety standards. Reflecting this commitment, we have put in place numerous measures to ensure that the safety and quality of our products are upheld throughout the supply chain. This includes ensuring that our transportation vehicles are equipped with temperature control systems, and specifying stringent standards on our vendors so that all deliveries meet the requirements of Good Distribution Practice.

2017 saw a key achievement for Pharmaniaga, when Pharmaniaga LifeScience Sdn Bhd became the first facility in the country to install and commmission freeze drying technology for the lyophilisation of small volume injectable pharmaceutical products, following the successful completion of a rigorous qualification procedure.

Diversifying our business streams has always been part of our strategic long-term plan for the growth of our business. To this end and in support of the Government's Corporate Entrepreneur Responsibility initiative to provide opportunities to entrepreneurs, in 2017 we embarked on a partnership with Paradigm Industry Sdn Bhd. This enabled us to venture into the manufacturing of Stevia-based products, a natural sweetener, as part of our commitment to provide consumers with beneficial products.

One of the key market differentiators for Pharmaniaga is our position as a global provider of Halal pharmaceuticals and medical devices. To leverage on this unique advantage, we have ramped up our production of Halal certified products, adding more than 60 new products in 2017 alone, bringing the total number of Halal products to over 90.

With a view to strengthen Malaysia's role in the global pharmaceutical sector, in collaboration with *Jabatan Kemajuan Islam Malaysia* (JAKIM) and Department of Standards Malaysia, we are assisting in the development of the Malaysian Standard for Halal Medical Devices - General Requirements. This bodes well for Pharmaniaga as it has a direct impact on our medical device products which will be certified Halal once the Standard is enforced, giving us yet another platform to expand our Halal reach globally.

COMPLIANCE CULTURE

As Malaysia's leading pharmaceutical company with a *Passion for Patients*, we are uncompromising when it comes to complying with rules and regulations. Our Do It Right First Time (DIRFT) campaign has successfully educated our employees on the importance of regulatory compliance and ensured Company-wide adherence. A mindful compliance culture also helps advance our corporate culture while inculcating a sense of responsibility and proprietorship amongst our employees.

Through the DIRFT campaign, we launched the *Kenali Saya* programme to foster *esprit de corps* amongst employees while improving the work environment. Our objective is to make Pharmaniaga an enjoyable place to work, and various internal events including social gatherings, outdoor activities, workshops, webinars, briefings as well as site audits, kept our team engaged.

NURTURING TALENT

Forging ahead as part of a pharmaceutical sector that is changing at an exponential speed and growing in its complexity, we recognise the necessity of cultivating a highly skilled, passionate and motivated talent pool.

With a workforce of more than 3,000 people in both Malaysia and Indonesia, we offer a safe working environment, competitive compensation and benefits as well as ample opportunities for learning and development. Attracting, motivating and retaining talented and high-performing individuals are a priority for us.

People are our most valuable asset, and we constantly strive to create alignment and productive engagement with our employees. We believe that an engaged workforce directly impacts an organisation's bottom-line and this belief is reflected in our comprehensive employee engagement plan. Our efforts gained national recognition and we were honoured to receive the *Anugerah Majikan 1Malaysia* and *Anugerah Majikan Berdaya Saing Glokal* in conjunction with the National Labour Day celebration. In addition, we bagged two AON Best Employer Awards, namely Best Employer for Commitment to High Performance Culture and Best Employer for Commitment to Employer Brand Award.

PROMISING FUTURE

While tough market conditions are expected to persist in the year ahead, there are vast opportunities in the pharmaceutical sector, especially with the initiatives introduced by the Government in the 2018 National Budget. Given our market position, Pharmaniaga is well-poised to capitalise on these prospects over the long term.

We are encouraged by the price revision to our concession agreement with the Ministry of Health, resulting in an almost 20% expansion of the product list. We expect the revision to the Approved Products Purchase List 2017-2019 in December 2017 to positively impact the Company's growth in 2018.

A total of RM75 million has been allocated for capital expenditure in 2018, a testament to the Group's commitment to investing for our future.

As a leading generics manufacturer, research and development initiatives are an integral driver of growth. We remain focused on driving product innovation as we strive to develop new, high quality products that meet the needs of the healthcare sector.

Our newly signed collaboration agreement for the supply of a new Hepatitis C treatment provides us with distribution rights for the region. Through this collaboration, Pharmaniaga will not only gain from the transfer of technology, but more importantly play a key role in developing a Hepatitis C treatment regime that is expected to cost less than US$1 per day. This is *Passion for Patients* at its best: the collaboration will provide immeasurable benefit to Hepatitis C patients in Malaysia and the region, who will have access to safe, effective, and affordable treatment.

CLOSE TO
20%
expansion of the APPL product list

Tapping on the rapidly growing Halal sector, we expect to receive Halal certification for more than 150 pharmaceutical products by the end of 2019.

Further leveraging on the prospects of the Halal industry, we signed a Memorandum of Collaboration with Technology Depository Agency under the Ministry of Finance Malaysia and Hilleman Laboratories, a Merck & Co and Wellcome Trust Foundation joint venture. As a result of this partnership, we aim to develop and manufacture Halal and cost-effective vaccines that can be incorporated into Malaysia's National Immunisation Programmes.

These strategic partnerships with global pharmaceutical leaders not only allow us to grow by leaps and bounds, it facilitates the improvement of Malaysia's healthcare services for the benefit of all.

As we develop our operations, we are mindful of the need to expand our infrastructure to match our future needs. In line with this, we are constantly on the lookout to expand storage capacity at our warehouses.

In the following pages, we have elaborated on the key highlights of our business during the year. The measures undertaken are a clear demonstration of our plans for the future and our positive outlook on improving our earnings potential.

Embarking on a new fiscal year, we are focused on our ongoing quest to strengthen business sustainability and improve operational efficiencies while unlocking strategic prospects domestically, regionally and globally in line with our commitment to deliver shareholder value.

I would like to express my appreciation to the Board of Directors for providing strong support and guidance throughout the year. On the same note, our dedicated management team and employees have been key contributors to the growth of the Group. Our sincere gratitude also goes to our customers, suppliers, business partners, shareholders and relevant approving authorities for their continued support.

DATO' FARSHILA EMRAN
Managing Director

MANUFACTURING

KEY DEVELOPMENTS

RM4 MILLION
COST SAVINGS

> EIGHT
NEW PRODUCTS REGISTERED

INSTALLED AND COMMISSIONED LYOPHILISATION FACILITY
AT PHARMANIAGA LIFESCIENCE SDN BHD

The Manufacturing Division is the custodian of our commitment to quality, ensuring our products meet or exceed local and international standards set by regulators.

The year under review saw the Division undertake sustainable profitability enhancing initiatives that had a positive impact on cost optimisation across the board. As a result, the Division was able to record a profit before taxation of RM75 million amidst a challenging operating environment.

OUR OPERATIONS

To consolidate our position as a leading Malaysian pharmaceutical company, we are conscious of the need to continuously improve our capabilities. We undertook the commissioning of three new machines during the year, enabling us to improve our production output as well as reduce our changeover time, resulting in significant cost and time savings.

We achieved further cost savings through improved procurement methods. As a direct result of strategic negotiations with vendors, we were able to attain favourable cost savings in the region of RM4 million.

Our efforts in operational efficiency and cost savings allowed us to manufacture products of superior quality at competitive pricing, staying true to our motto of *Passion for Patients*.

The Manufacturing Division marked a significant milestone for the Group, as our plant in Puchong became the first pharmaceutical plant in the country to install and commission freeze drying technology for the lyophilisation of small volume injectable pharmaceutical products. We successfully completed a rigorous qualification process, which saw us comply with stringent requirements for water distribution, nitrogen and compressed air distribution lines as well as a heating, ventilation and air conditioning (HVAC) system for the lyophilisation clean room.

Due to our latest technological advancement, we will be adding more than five products including anti-ulcer, anti-bacterial, anti-fungal and analgesic products which will enhance our current therapeutic range.

To add to this, we have submitted the dossiers of key products to the National Pharmaceutical Regulatory Agency (NPRA) and expect the commercialisation of these products to be concluded in the year ahead.

According to recent findings by the National Health and Morbidity Survey 2017, 3.5 million Malaysians suffer from diabetes. In support of the fight against diabetes in Malaysia and as part of our long-term plan to diversify our business streams, we decided to enter the natural sweetener market and provide Malaysians with an alternative to sugar.

SweetRoyale Stevia is now part of our product range and is an anchor product for our community pharmacy. We are currently undertaking marketing and promotional activities including advertisements across various media platforms. SweetRoyale Stevia is also easily available online through e-Commerce sites including Lazada, www.royalepharma.com, Shopee and 11street.

We have marketed our bio-collagen wound care management products locally through education sessions with doctors as well as via exhibition booths at medical conferences.

Please Scan

Given our expansion plans for the European Union market, we undertook the implementation of the Enterprise Quality Management Software and the SAP S/4HANA (High Performance Analytic Appliance) Software across all manufacturing sites in Malaysia to be completed by 2018. We expect to fully equip all our manufacturing facilities with state of the art software that will allow us to effectively manage confidential content as well as gain timely access to data and analytics.

RESEARCH AND DEVELOPMENT

Our focus on technological innovation sets us apart in the ever-competitive pharmaceutical industry. Continuous investment in research and development (R&D) enables us to provide quality affordable solutions to some of the most pressing medical issues in Malaysia and the region. We further strengthened our product development line-up by more than eight new products approved by the NPRA.

The Group is on track to develop in excess of 250 products by 2024 including new therapeutic categories.

As part of our commitment to ensuring the quality, safety and efficacy of all our products, we undertake bioequivalence studies for all our generic products. These studies work to ensure that our generic products are bio-equivalent to the innovator products and are clinically interchangeable. Testament to our strong adherence to quality, there are more than 65 Pharmaniaga products that meet the required bio-equivalent status with several more in progress across all sites.

This adherence to quality standards is augmented by stringent clinical investigations, clinical reviews on product quality and pharmacovigilance initiatives. We are currently updating our pharmacovigilance system to be aligned with the latest Malaysian Pharmacovigilance Guidelines.

We value local traditional remedies and has applied this expertise into developing phytomedicines with specific health benefits. Potential herbs are screened, identified, selected and only then developed into products. Our collaboration with local and international partners to develop our phytomedicines focuses on expert capabilities to produce safe, high quality and efficacious products.

We have invested in the development of two products utilising local herbs - Kacip Fatimah (KF) and Patawali in line with our efforts to advance herbal biotechnology.

Our trademark and patent applications in Malaysia and the United States of America for the branding of KF finished products were successful. As part of the patent, our KF extraction method has been trademarked as unique and capable of producing high quality extracts.

Moving forward, we aim to patent other aspects of the KF project including the formulation of the finished product, the manufacturing process, as well as other key steps.

Our patented KF extract has been tested pre-clinically in an accredited OECD GLP certified research laboratory in Australia for safety, quality and efficacy. The pre-clinical data demonstrates that our extract is of high quality and conforms to international regulatory standards.

Moving forward, we aim to develop the formulation, manufacture the KF finished product and proceed into clinical trials. We look forward to establishing the KF finished product as a safe, high quality and effective phytomedicine that improves the health and vitality of women.

Kacip Fatimah Plantlets

LOGISTICS & DISTRIBUTION

KEY DEVELOPMENTS

96% GOOD AND EXCELLENT RATING
FROM DIALOGUE RESPONDENTS

CLOSE TO 20%
NEW PRODUCTS FOR APPL 2017-2019

>10
NEW PRODUCTS REGISTERED

Operations Review: Logistics & Distribution

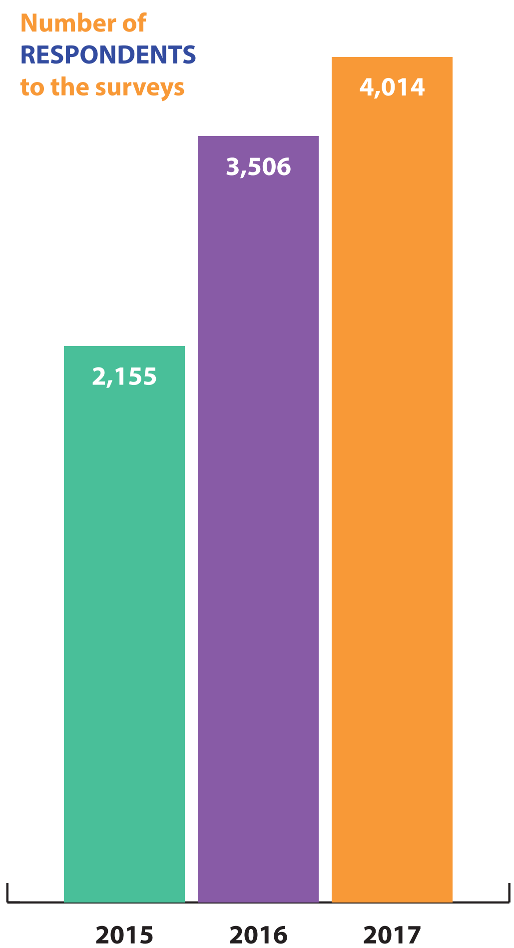
Responsible for the seamless delivery of pharmaceutical products to customers, the Logistics and Distribution Division continues to grow the concession and private sector business of the Group.

The satisfaction of our customers, in particular the Ministry of Health (MOH), is paramount to our success. Our operations embody our motto of *Passion for Patients*, as we once again sustained the exceptional service levels that have become the trademark of our company. We achieved 99% order fulfilment for MOH health facilities across the nation and successfully reduced delivery time, with 95% of orders delivered within a shorter time frame. Additionally, our 2017-2019 Approved Product Purchase List (APPL), which commenced in December, features almost 20% new products.

We understand the need for quick responses to queries about our healthcare services. Our Customer Care Call Centre recorded a 93% success rate for incoming calls answered within three rings.

At the same time, it is important for us to continuously improve our performance and this begins by seeking customer feedback. We carried out Customer Satisfaction Survey on a six-monthly basis for MOH and testament to our efforts to improve service levels, 95% of respondents rated us as 'Excellent' and 'Good' in the second survey, compared with 94% in the first survey. We also conducted six surveys for the Ministry of Higher Education Malaysia (MOHE) which includes *Hospital Universiti Sains Malaysia, Pusat Perubatan Universiti Malaysia and Pusat Perubatan Universiti Kebangsaan Malaysia*, where the overall respondents rated our services as 'Good'.

Through dialogue sessions with the various State Health Departments, we were able to gauge their appraisal of our service levels. We are pleased to note that 96% of respondents rated us as 'Excellent' and 'Good'.



In line with our focus on efficiency optimisation and cost savings, our stock availability was sustained at an optimum level at all our Distribution Centres.

We take pride in our drive to provide the best for our customers. During the year, we embarked on numerous measures to maintain the quality of our products throughout the supply chain.

We are also conscious that this effort must be reflected in the service delivery of our vendors who are integral to our success. We impose stringent standards on our vendors to ensure all deliveries meet the requirements of Good Distribution Practice (GDP). As a demonstration of our commitment to GDP requirements, we have installed temperature control systems on all our transportation vehicles.

We continued our endeavour to obtain Halal certification for our storage facilities and transportation methods.

Our ISO certification was also upgraded during the year. Pharmaniaga was audited and accredited ISO 9001:2015 and ISO 14001:2015 certifications, demonstrating our strict compliance with these international standards.

The latest revisions to ISO 9001:2015 and ISO 14001:2015 adopt a more active approach to risk management, which assists companies to better understand risks and opportunities.

- **ISO 9001:2015**
- **ISO 14001:2015**

upgraded during the year

CERTIFIED ISO 9001 : 2015

CERTIFIED ISO 14001 : 2015

Building on the confidence placed in us by our biggest client, the Government of Malaysia, we were able to expand our market reach to the MOHE, the Ministry of Home Affairs and *Institut Jantung Negara* through the distribution of products as part of the APPL.

As the nation's market leader in generic pharmaceuticals, the Group benefited from the growth of the local generic pharmaceutical segment, which recorded a five-year compounded annual growth rate of close to 2%.

Our strategy to dominate the pharmaceutical generic segment through robust pricing bore fruit when our homegrown brands such as Aspira and Iqnyde under the therapeutic portfolios of respiratory and urology, led the market in terms of prescription volume with a sizeable total generic market share of 50% and 55% respectively. In 2017, more than 10 new products have been registered.

In the near future, we will be adding more products from key therapeutic areas such as anti-infectives, cardiovascular, analgesics and diabetes in addition to our hospital specific injectable range. Our new offerings are projected to further increase our overall revenue growth and boost our presence in the market.

Our collaboration with leading global manufacturers allows us to introduce new high-quality products into the local market for both public and private segments. In addition, our participation in key initiatives has strengthened our reputation as one of the key players in the medical device industry in Malaysia.

Fuelled by an established central procurement hub, our community pharmacy segment recorded sustained growth with more than 130 bumiputera independent pharmacies throughout Malaysia under its alliance network. These member pharmacies are able to offer customers attractive choices, as they now stock more than 300 different products from 200 products previously.

In line with this programme, we provide value-added services to our members by offering exclusive Pharmaniaga Purchase EzyPay cards, which we structured via a reputable financial institution. This allows them to enjoy interest-free instalments for purchases.


INDONESIA OPERATIONS
MPI
PT. MILLENNIUM PHARMACON INTERNATIONAL

KEY DEVELOPMENTS

32%
CONTRIBUTION
TO THE GROUP'S REVENUE

>10
NEW PRODUCTS REGISTERED

NEW BRANCH IN
MANADO, NORTH SULAWESI

Pharmaniaga has grown from strength to strength on the global stage, as we continue our journey to becoming a major player in the international pharmaceutical market. Our Indonesian operations were a strong contributor to the Group's results, delivering 32% of the Group's revenue.

LOGISTICS

Our Indonesian listed subsidiary PT Millennium Pharmacon International Tbk (MPI), recorded an increase in net sales to RM690 million. The 15% growth was mainly due to the sales of medical disposable products via the Indonesian Universal Health Coverage programme.

MPI's ethical products category remains the main contributor to total sales while sales of over-the-counter medications and medical consumable products continue to be promising. We expanded our reach to major cities across Indonesia with the opening of our new branch in Manado, North Sulawesi.

With MPI's acquisition of 15% equity interest in PT Errita Pharma (Errita) during the year, MPI is now able to access high quality affordable medicines to add to its generic drugs portfolio. We look to leverage on this advantage to make our mark in Indonesia.

Further fortifying MPI's market position, we were able to procure distribution rights from three new principals during the year.

Our commitment to compliance saw eight MPI branches attaining Good Distribution Practice (GDP) certification, bringing total certified branches to 20. As part of our compliance enhancement initiative, MPI is now ISO 9001:2015 certified.

We also wanted to ensure that our expansion in Indonesia included operational excellence from the very beginning. We enhanced our service levels at our Indonesian operations through information technology improvements such as *Qlik Sense* (Dashboard), *Colek Bayar* (Mobile Collection Application) and web-based operational reports for principals, and we aim to continuosly improve in the coming years.

MPI will explore prospects in the Indonesian market in line with our strategy to continuously grow in Indonesia.

MANUFACTURING

We have made steady progress to establish ourselves as a manufacturer of generic pharmaceuticals in the international arena. Errita marked a key milestone this year with a turnaround in its results, a first since its acquisition in 2014. This achievement is testament to the success of our strategic long-term plan for our Indonesian operations as part of our overall growth blueprint.

We introduced a new sales incentive programme in addition to appointing new distributors in key markets including Kalimantan Barat, Kalimantan Timur, Maluku, Bali, Pekan Baru and Batam. These efforts proved fruitful in improving revenue contribution from branded generic products.

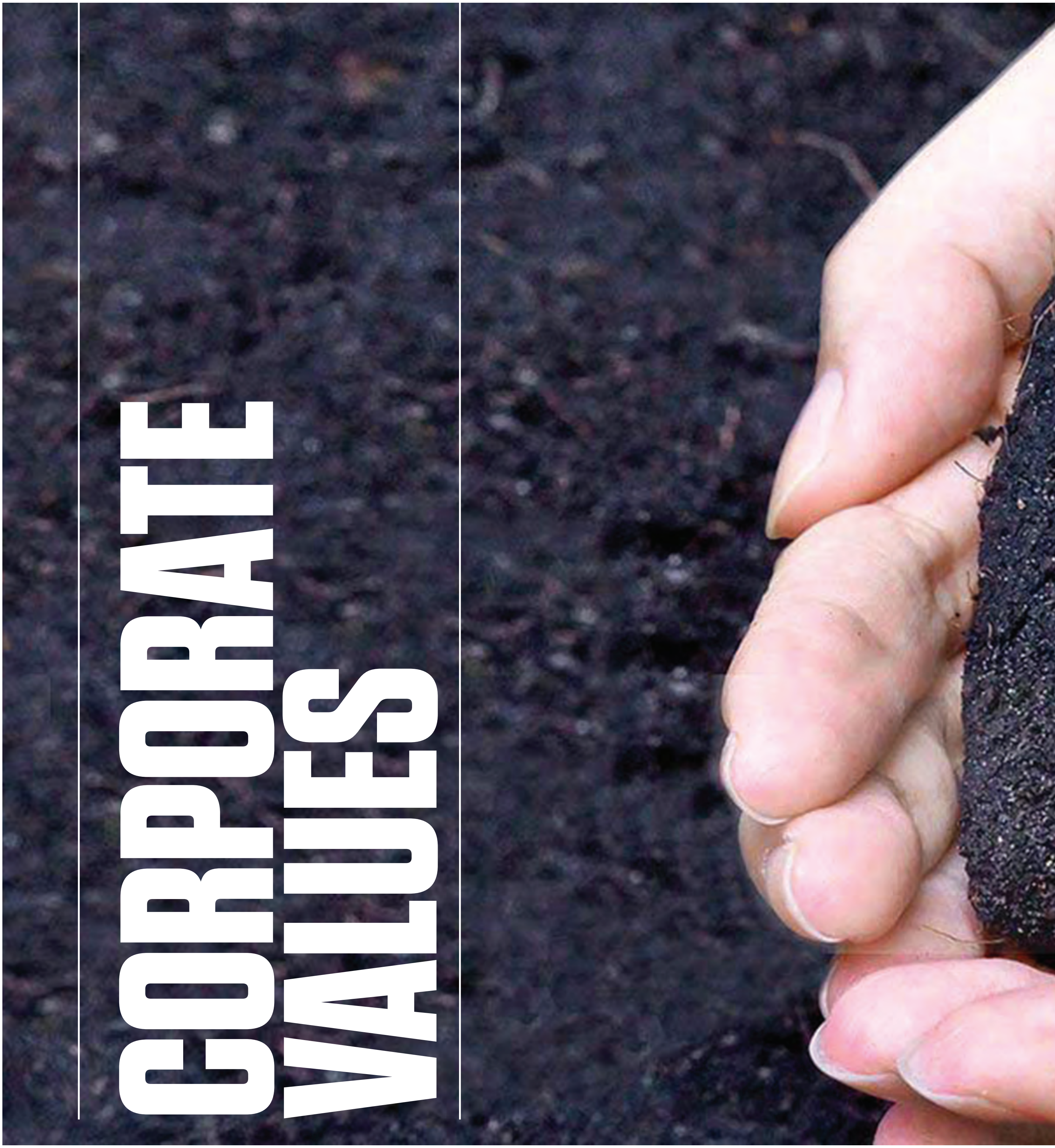
Expanding our product range is a major thrust in our strategy to grow in the region. We executed this plan by launching more than eight new products at our Indonesian plant in 2017, with more than 20 new products submitted for registration.

In 2018, we aim to invest further in upgrading production capacity at our Indonesian plant. We will acquire machinery to improve automation of the blistering, strip packing and packaging process, which is expected to enhance manufacturing efficiencies.

Keeping to our strategy of increasing our presence in Indonesia, we also submitted registration for our bio-collagen wound care management.

The Indonesian market is a key component in our strategy to grow internationally, and we are eager to further progress our business in a country abound with opportunities for the pharmaceutical industry.

CORPORATE VALUES



AT PHARMANIAGA, WE HAVE TAKEN OUR *PASSION FOR PATIENTS* TO NEW HEIGHTS OF EXCELLENCE AND RELIABILITY. CREATING A RESILIENT BUSINESS AND BUILDING A BETTER WORLD COME HAND IN HAND. BOTH ARE ESSENTIAL FOR LONG-TERM SUCCESS.

CORPORATE VALUES

Contribution to *Tabung Pahlawan*

As part of Pharmaniaga philanthropy initiatives, the Company has contributed a total of RM100,000 for the *Tabung Pahlawan* 2017.

Pharmaniaga promotes healthy lifestyle activities

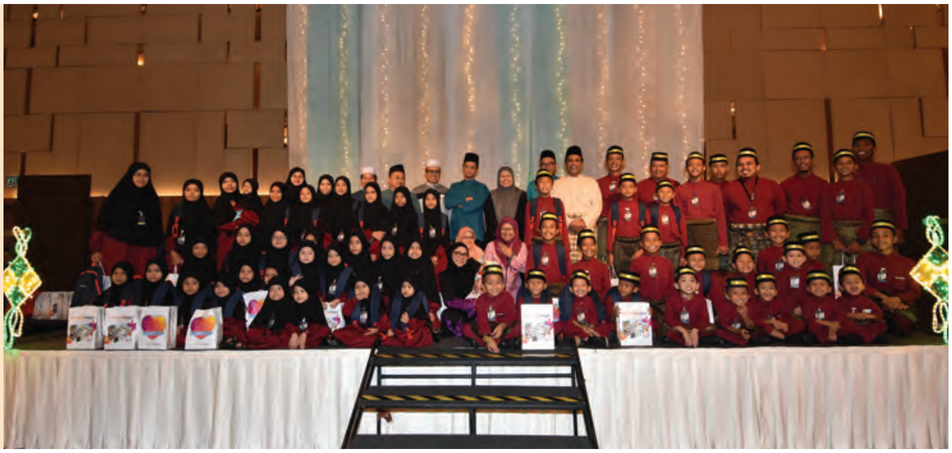
Through *Komuniti Sihat Perkasa Negara* (KOSPEN PLUS) aspiration, Pharmaniaga conducted several activities with the aim to promote healthy lifestyle for its employees. Amongst the activities were brisk walking, basic health check, yoga, biggest loser challenge programme and many others.

Blood donation programme at manufacturing plants

In conjunction with *Minggu Persekitaran, Keselamatan dan Kesihatan*, Pharmaniaga collaborated with Pusat Darah Negara to organise Blood Donation programme at several of its manufacturing plants.

Iftar Pharmaniaga

Through Pharmaniaga's Surau Committee, the Group organised a break-fast programme with selected orphanages and Tahfiz schools within Klang Valley.



Hero Ramadan

Pharmaniaga organised *Hero Ramadan* by distributing break-fast meals to the Trauma and Emergency Unit staff of six hospitals around Klang Valley as an appreciation for their dedication having to work during the break-fast period.

Bubur lambuk distribution

In conjunction with the holy month of Ramadan, Pharmaniaga distributed *bubur lambuk* for break-fast to all of its employees.

Jom Bantu Asnaf

Pharmaniaga contributed brand new and pre-loved clothes to *Pertubuhan Kebajikan Baitul Hasan Kuala Lumpur.*

Contribution to ATM for Aidilfitri

Pharmaniaga donated RM100,000 to the *Angkatan Tentera Malaysia* for the supply of Raya cookies and goodies for the servicemen who would be on duty during the festive season.

PharmaRaya (Raya Open House)

In conjunction with Hari Raya Aidilfitri, Pharmaniaga celebrated the joy of the festivity by organising Raya Open House for its employees.

Halal Bihalal Idulfitri Celebration At PT. Millenium Pharmacon International Tbk, Jakarta

It was a simple but meaningful Halal Bihalal Idulfitri celebration at T PT. Millenium Pharmacon International Tbk, Jakarta. The employees feted themselves with delicious meals specially prepared for the occasion.

Halal Bihalal Idulfitri Celebration At PT Errita Pharma, Bandung

The celebration of the Halal Bihalal Idulfitri at PT Errita Pharma was a made special with the presence of Pharmaniaga's Managing Director, Dato' Farshila Emran. It was a joyous event with delicious delicacies and fun performances by the employees, that further bonded the team spirit.

House refurbishment for a single mother

In the light of celebrating the joy of Aidilfitri, volunteers from Pharmaniaga visited Puan Saniah bt Bonjani, a less fortunate single mother and refurbished her home in Batu Pahat, Johor.

Program Jalinan Kasih

In conjunction with Hari Raya celebration, Pharmaniaga with *Jabatan Kemajuan Orang Asli* contributed food supplies for the community in Kampung Orang Asli Sungai Gapoi, Bentong, Pahang.

Majlis Ibadah Qurban Pharmaniaga

Pharmaniaga celebrated Hari Raya Aidiladha with the orphans from various orphanages in Klang Valley. Pharmaniaga employees contributed 12 cows for the event.

Contribution to Tahfiz Ittifaqiyah Dato' Keramat

Pharmaniaga contributed a total of RM10,000 to the fire victims of Tahfiz Ittifaqiyah Dato' Keramat, Kuala Lumpur. Pharmaniaga employees also chipped in towards the fund.

Spiritual well-being

Pharmaniaga is mindful of the importance of spiritual wellness. Major events such as *Maal Hijrah* were celebrated with inspiration talks by esteemed speakers including Ustaz Don Daniyal Don Biyajid and many more.

Examination and Motivational Seminar

Pharmaniaga organised examination and motivational seminar for its employees' children. The programme was aimed at providing the students with study and examination tips.

Orange Run

A total of 153 runners from Pharmaniaga participated in the 11th Orange Run 2017 organised by BH Petrol. Pharmaniaga also mobilised its *Skuad Operasi Sihat Negaraku* (SOSN) team for a free basic health screening during the event.

Road to World Pharmacist Day

In conjunction with World Pharmacist Day, Pharmaniaga took the opportunity to mobilise its SOSN volunteers by providing free health check for the general public at the event.

Contribution of *Van Jenazah*

Pharmaniaga assisted the local community by contributing *Van Jenazah* to *Surau Al-Mustaqimah*, Seksyen 7, Shah Alam.

Fire drill exercise

Pharmaniaga organised annual fire safety and evacuation plans which outline staff duties and responsibilities in time of emergency. Fire drills serve as an opportunity for staff members to demonstrate, under simulated fire conditions, that they can perform those duties and responsibilities safely and efficiently.

Corporate Governance Overview Statement

This Corporate Governance Overview Statement sets out the principal features of Pharmaniaga Berhad (Pharmaniaga) and its subsidiaries' (collectively referred to as the Group) corporate governance approach, summary of corporate governance practices during the year as well as key focus areas and future priorities in relation to corporate governance. The Corporate Governance Overview Statement is made pursuant to Paragraph 15.25(1) of the Main Market Listing Requirements (MMLR)of Bursa Malaysia Securities Berhad (Bursa Malaysia) and guidance was drawn from Practice Note 9 of the MMLR and the Corporate Governance Guide (3rd edition) issued by Bursa Malaysia.

The Corporate Governance Overview Statement is augmented with a Corporate Governance Report, based on a prescribed format as enumerated in Paragraph 15.25(2) of the MMLR so as to provide a detailed articulation on the application of the Group's corporate governance practices vis-à-vis the Malaysian Code on Corporate Governance (MCCG). The Corporate Governance Report is available on the Group's website, www.pharmaniaga.com as well as via an announcement on the website of Bursa Malaysia.

This Corporate Governance Overview Statement should also be read in tandem with the other statements in the Annual Report, namely Statement on Risk Management and Internal Control, Audit Committee Report and Sustainability Report.

CORPORATE GOVERNANCE APPROACH

The Board of Directors (Board) of Pharmaniaga is committed towards reinforcing its market position in the pharmaceutical sector, whilst remaining true to the Group's well-established corporate governance philosophies which are ingrained in the Group's core values, namely, **Respect**, **Integrity**, **Teamwork** and **Excellence**. The Board believes that a robust and dynamic corporate governance framework is essential to form the bedrock of responsible and responsive decision making in the Group.

The Group's overall approach to corporate governance is to:

- promote heightened accountability at the leadership level (Board and Senior Management);
- adopt the substance behind corporate governance enumerations and not merely in form;
- conduct a thorough debate and rigorous enquiry process before establishing corporate governance systems, policies and procedures;
- identify opportunities to drive the synergistic implementation of corporate governance systems, policies and procedures for improved strategic and operational decision making; and
- find a fine balance in meeting the expectations of the different groups of stakeholders of the Group.

Given that the Board forms the pivot of good corporate governance, the Board steers efforts to promote meaningful and thoughtful application of good corporate governance practices. The Group regularly reviews its corporate governance arrangements and practices to ascertain if they reflect prevailing norms, market dynamics, emerging trends, developments in the regulatory tapestry and evolving stakeholder expectations. Such efforts turned out to be quintessential in the year 2017 given that regulatory authorities introduced a slew of reform measures including the operationalisation of Companies Act 2016, incarnation of the new MCCG by Securities Commission Malaysia and amendments to the MMLR.

Against the backdrop of the aforementioned regulatory developments, the Group undertook a recalibration of its corporate governance framework and meted out measures to adhere to these enumerations in substance. Premised on the notion that improving corporate governance is aspirational in nature and ultimate in abstraction, the Group will continue to enhance its daily business activities to ensure that they are guided by the hallmarks of accountability, objectivity and transparency.

SUMMARY OF CORPORATE GOVERNANCE PRACTICES

In manifesting the Group's commitment towards sound corporate governance, the Group has benchmarked its practices against the relevant promulgations as well as other best practices.

Pharmaniaga has applied all the Practices encapsulated in MCCG for the financial year ended 31 December 2017 except:

- Practice 4.5 Policy on gender diversity;
- Practice 6.1 Remuneration Policy for Directors and Senior Management; and
- Practice 7.2 Disclosure of the top five Senior Management personnel's remuneration on a named basis in bands of RM50,000

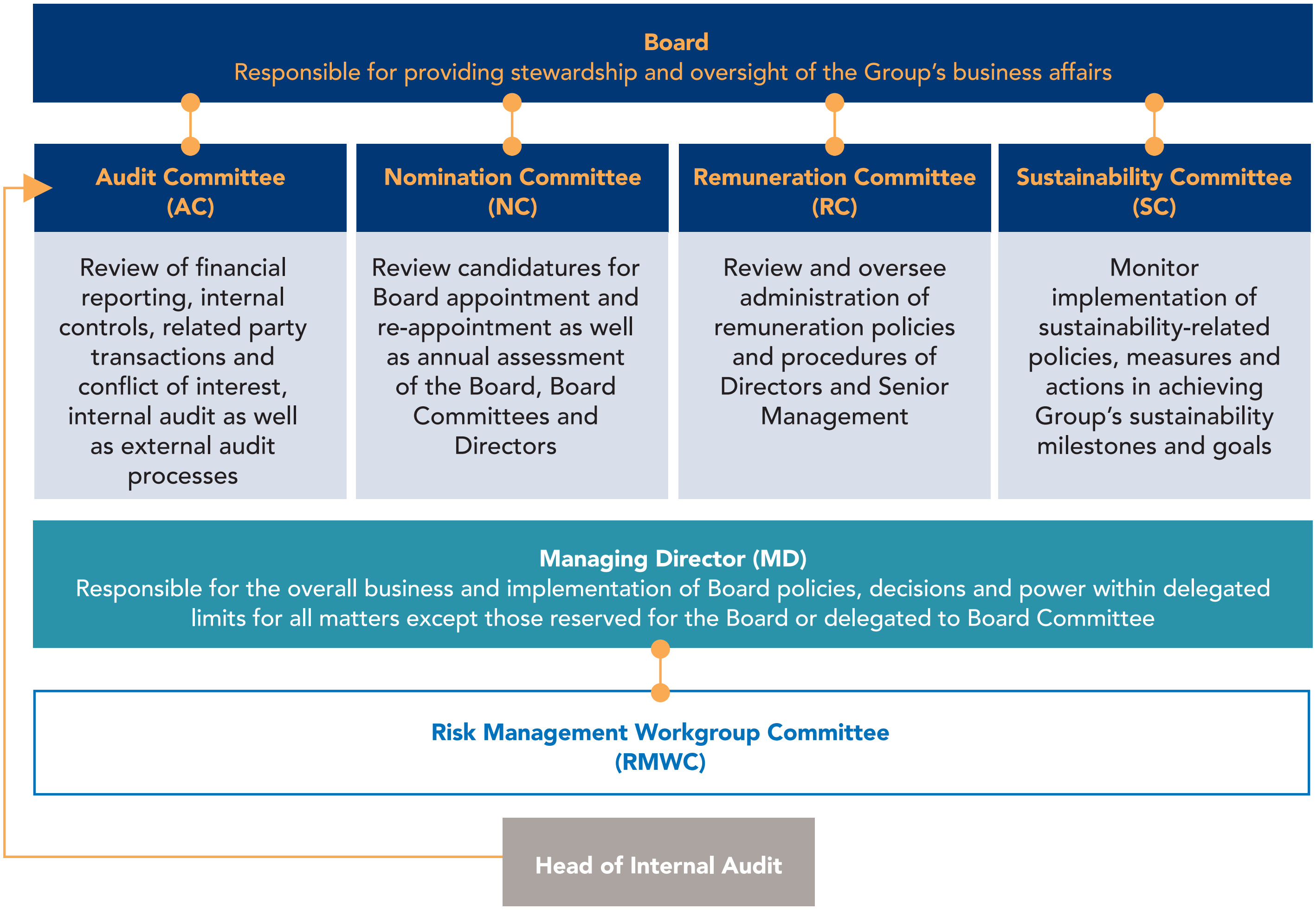
In line with the latitude accorded in the application mechanism of MCCG, the Company has provided forthcoming and appreciable explanations for the departures from the said practices. The explanations on the departures are supplemented with a description on the alternative measures that seek to achieve the Intended Outcome of the departed Practices, measures that the Company has taken or intends to take to adopt the departed Practices as well as the timeframe for adoption of the departed Practices. Further details on the application of each individual Practice of MCCG are available in the Corporate Governance Report.

A summary of the Group's corporate governance practices with reference to MCCG is described below.

BOARD'S ROLES AND RESPONSIBILITIES

The Board is responsible for the corporate governance practices of the Group. Being at the helm of the Group, the Board governs the affairs of the Group on behalf of the shareholders and retains full and effective control over the Group.

Corporate Governance Overview Statement



As depicted in the illustration above, Board Committees have been established to assist the Board in its oversight function with reference to specific responsibility areas. It should however be noted that at all times, the Board retains collective oversight over the Board Committees. These Board Committees have been constituted with clear terms of reference and they are actively engaged to ensure that the Group is in adherence with good corporate governance.

The Board has formalised a Board Charter which sets out the ethos of the Group, structure and authority of the Board. The Board Charter is the primary document that elucidates on the governance of the Board, Board Committees and individual Directors. The Board Charter was recently reviewed on 27 February 2018 and is made available on Pharmaniaga's website.

The Directors allocate sufficient time to discharge their responsibilities effectively and attend Board and Board Committee meetings with sufficient regularity to deliberate on matters under their purview. Board meetings are held at quarterly intervals with additional meetings convened for particular matters, when necessary. During the year, the Board has deliberated on business strategies and critical issues concerning Pharmaniaga Group, including business plan, annual budget, significant acquisitions and disposals, financial results as well as key performance indicators. The attendance of individual Directors at Board and Board Committees meetings during the financial year ended 31 December 2017 is outlined below:

Directors	Board	AC	NC	RC	SC
Managing Director					
Dato' Farshila Emran	4/4				
Non-Independent Non-Executive Directors					
Tan Sri Dato' Seri Lodin Wok Kamaruddin	4/4		1/1	2/2	
Daniel Ebinesan	4/4	4/4			2/2
Senior Independent Non-Executive Director					
Mohd Suffian Haji Haron	4/4	4/4	1/1	2/2	2/2
Independent Non-Executive Directors					
Izzat Othman	4/4	4/4	1/1	2/2	
Liutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired)	4/4	4/4			2/2

Board/Board Committee Chairman   Member

Corporate Governance Overview Statement

There is clear delineation of roles of the Board and Management. The MD is the conduit between the Board and the Management in driving the success of the Group's governance and management function.

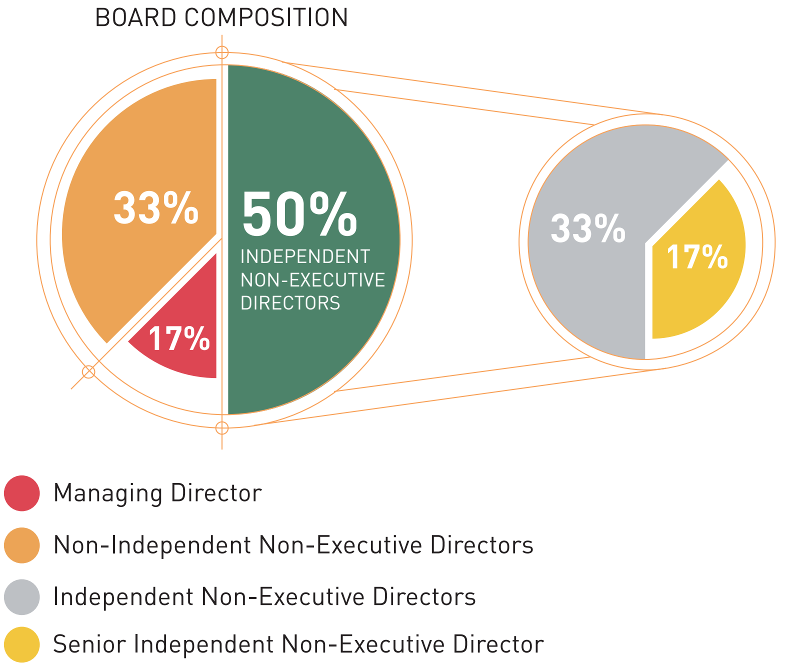
In performing their duties, all Directors have access to advice and services of a suitably qualified Company Secretary. The Company Secretary acts as a corporate governance counsel and ensures good information flow within the Board, Board Committees and Senior Management. The Company Secretary attends all meetings of the Board and Board Committees and advises the Directors on the requirements encapsulated in the Company's Constitution and legislative promulgations such as the Companies Act 2016, Capital Markets and Services Act 2007 (Amendment 2012) and the MMLR. Management provides Directors with complete, adequate and timely information prior to meetings and on an ongoing basis to enable them to make informed decisions.

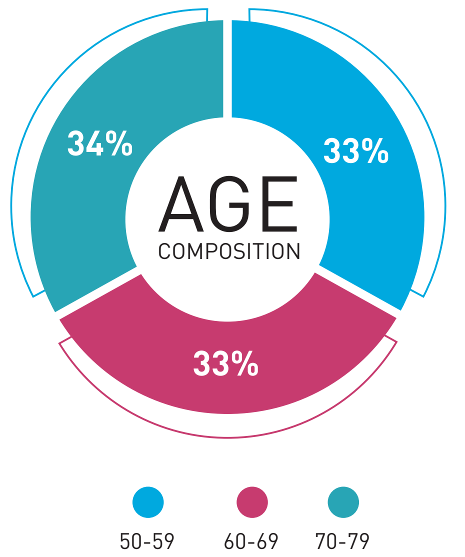
As **Integrity** is a core value of the Group, the Board is cognisant of its responsibility to set the ethical tone for the Group. A Code of Conduct and the Whistleblowing Policy have been put in place to foster an ethical culture and allow legitimate ethical concerns to be escalated in confidence without risk of reprisal. The Code of Conduct and the Whistleblowing Policy are reviewed periodically by the Board. The Code of Conduct is published on Pharmaniaga's website.

BOARD COMPOSITION

The Board of the Company comprises six members, three of which are Independent Non-Executive Directors. The Company is headed by a female Managing Director.

The composition of the Independent Directors on the Board is in excess of the MMLR one third. The Board strives to ensure that it has an appropriate mix of skills, qualifications and experience to discharge its roles and responsibilities effectively based on the Group's nature of business. The Board, from time to time undertakes a review of its composition to determine areas of strengths and improvement opportunities.





Appointments to the Board are made via a formal, rigorous and transparent process, premised on meritocracy and taking into account objective criteria such as qualifications, skills, experiences, professionalism, integrity and diversity needed on the Board in the context of the Group's strategic direction. In the case of Independent Directors, the NC assesses the candidate's ability to bring the element of detached impartiality and objective judgment to the boardroom deliberations.

The Board, with the assistance of the NC, regularly assesses the skills, experiences, independence and diversity required collectively for the Board to effectively fulfill its roles. The Board was satisfied that there was mutual respect amongst Directors which contributed to a democratic environment so as to constructively deliberate and undertake a robust decision-making process.

The Board reviews its performance, and that of Board Committees and individual Directors on annual basis based on a set of predetermined criteria in a process that is facilitated by the NC. For the year under review, the NC's key activity was to assess the overall Board and Board Committees' performances and effectiveness as a whole. The NC was satisfied that the Board and Board Committees' composition had fulfilled the criteria required, possess a right blend of knowledge, experiences and mix of skills. In addition, the NC also recommended for the Board to endorse the re-election of the relevant Directors at the forthcoming AGM.

In reviewing the independence of Independent Directors, the NC and Board adopt a qualitative approach in assessing if Independent Directors possess the intellectual honesty and moral courage to advocate professional views without fear or favour. The Board is cognisant of the rebuttable presumption that extended tenure leads to entrenchment and as such, the Board remains watchful for such indicators of entrenchment amongst long serving Independent Directors.

REMUNERATION

Pharmaniaga aims to set remuneration at levels which are sufficient to attract and retain high calibre Directors and Senior Management needed to run the business successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved.

As for oversight on remuneration matters, the Board has established a specialised Committee, namely RC which comprises a majority of Non-Executive Directors. The RC implements policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of the Board and Senior Management.

A review on the quantum and composition of Executive Director and Senior Management's remuneration is undertaken once every three years, and once in every four years for Non-Executive Directors.

The details for the remuneration of Directors for the financial year ended 31 December 2017 for the Group are as follows:

Directors	Fees		Salaries	Bonuses	EPF	Benefit in Kind	Meeting Allowances	Total Group
	Company	Group						
	RM	RM	RM	RM	RM	RM	RM	RM
Managing Director								
Dato' Farshila Emran	-	30,000	945,000	652,500	248,625	37,200	1,000	**1,914,325**
Non-Executive Directors								
Tan Sri Dato' Seri Lodin Wok Kamaruddin (Chairman)	135,000	135,000	-	-	-	-	5,000	**140,000**
Mohd Suffian Hj Haron (Senior Independent)	115,000	115,000	-	-	-	-	9,000	**124,000**
Daniel Ebinesan	90,000	90,000	-	-	-	-	6,750	**96,750**
Izzat Othman	102,000	216,000	-	-	-	-	21,250	**237,250**
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	90,000	90,000	-	-	-	-	6,500	**96,500**
Total	**532,000**	**676,000**	**945,000**	**652,500**	**248,625**	**37,200**	**49,500**	**2,608,825**

AUDIT COMMITTEE

The AC is relied upon by the Board to, amongst others, provide advice in the areas of financial reporting, external audit, internal control environment and internal audit process, review of related party transactions as well as conflict of interest situations. The AC also undertakes to provide oversight on the risk management framework of the Group.

The AC is chaired by an Independent Director who is distinct from the Chairman of the Board. All members of the AC are financially literate. One of the AC members is a member of the Malaysian Institute of Accountants. The AC has full access to both the internal and external auditors who, in turn, have access at all times to the Chairman of the AC. The role of the AC and the number of meetings held during the financial year as well as the attendance record of each member are set out in the AC Report of the Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board is cognisant that a robust risk management and internal control framework helps the Group to achieve its value-creation targets by providing risk information to enable better formulation of the Group's strategies and decision making. The Group has established policies and framework for the oversight and management of material business risks and has adopted a formal Risk Management Policy. The Group, through the RMWC (a Management-level Committee), maintains detailed risk registers which are reviewed and updated on quarterly basis. Key focus areas of risks are reported and deliberated at the AC meetings.

The internal audit function is carried out by an in-house Group Internal Audit (GIA) from Boustead Holdings Berhad (the immediate Holding Company of Pharmaniaga). The GIA's function reports directly to the AC, and is independent of the activities it audits. GIA's authority, scope and responsibilities are governed by an Internal Audit Charter which is approved by the AC.

Further information on the Group's risk management and internal control framework is made available on the Statement of Risk Management and Internal Control of the Annual Report.

COMMUNICATION WITH STAKEHOLDERS

The Group is fully committed to maintain a high standard for the dissemination of relevant and material information on the development of the Group. The Group also places strong emphasis on the importance of timely and equitable dissemination of information to stakeholders. Key stakeholder communication modes include Annual Report, unaudited quarterly results, analyst briefings, announcement to Bursa Malaysia, Sustainability Report, corporate website and investor relation activities.

The Group's investor relations activities are aimed at developing and maintaining a positive relationship with all the stakeholders through active two-way communication. Stakeholders can also direct their queries to:

a. Chief Financial Officer, Norai'ni Mohamed Ali
   Tel : +603-3342 9999
   E-mail: noraini.aliani@pharmaniaga.com; or
b. Company Secretary, Tasneem Mohd Dahalan
   Tel : +603-2141 9044
   E-mail: tasneem.gsec@boustead.com.my

NOTICE OF AGM

Date : **11 April 2018**
Venue: **Royale Chulan Damansara, Petaling Jaya**

April 11 2018

- 28 days notice
- Ample parking space
- Walking distance from Mutiara Damansara Mass Rapid Transit (MRT) Station

CONDUCT OF GENERAL MEETINGS

The Group is of the view that General Meetings are important platforms to engage with its shareholders as well as to address their concerns. During the immediate preceding five years, all Directors were present at the Annual General Meetings (AGM) to answer questions raised by shareholders. The Chairman, MD and Chairmen of Board Committees will provide written answers to any significant question that cannot be readily answered. The Group encourage shareholders to attend and participate in the AGM by providing adequate advance notice and holding the AGM at a readily accessible location. The location of the AGM is customarily nestled in Klang Valley, which is generally reflective of the shareholders' geographical dispersion.

Corporate Governance Overview Statement

FOCUS AREAS ON CORPORATE GOVERNANCE

Corporate governance was clearly imperative for the Group in the year 2017 against the backdrop of regulatory changes in the domestic corporate governance realm and a relatively challenging economic environment that is characterised by volatile market conditions and commodity prices.

Against the aforementioned setting, during the year under review, the Board directed its focus on the core duties of the Board which is grounded on the creation of long-term value for stakeholders.

Corporate governance areas which gained heightened attention from the Board during the financial year ended 31 December 2017 are as follows:

Independence of the Board

It is recognised that having objectivity in the boardroom extends beyond quantitative measures such as number of independent directors and their respective tenures. In order to harness the collective wisdom from greater participation of Independent Directors, they have access to key gatekeepers of the Group such as external and internal auditors to discuss or share concerns about the Group and exchange views on potential improvements in governance.

Review of Board Charter and Board Committees' Terms of Reference

The Board undertook to review and update its Board Charter alongside the Terms of Reference for each of the Board Committees. Changes were made to reflect the revised regulatory expectations as well as the expectations of stakeholders for Directors to exercise greater vigilance and scepticism in understanding and shaping the direction of the Group. These authoritative documents serve to guide the governance and conduct of the Board and Board Committees.

Professional Development of Directors

During the year under review, Directors were accorded with a host of opportunities to develop and maintain their skills and knowledge. Directors attended various training programmes to keep themselves abreast of changes in legislative promulgations and industry practices. The Board, through the Nomination Committee was satisfied with the type of programmes attended by each Director during the year to enhance their knowledge and performance.

The list of training programmes that were attended by the Board members are outlined below:

Name	Programme Title and Organiser	Date
Managing Director		
Dato' Farshila Emran	Key Changes and Directors' Duties and Responsibilities' under Companies Act 2016 Organised by MAICSA	13 April 2017
Non-Independent Non-Executive Directors		
Tan Sri Dato' Seri Lodin Wok Kamaruddin	Seminar Pelabur Global 2017 Organised by Vega Hermosa International Sdn Bhd	18 February 2017
	Breakfast Talk with Asian Corporate Governance Association ("ACGA"): Corporate Governance ("CG") Watch 2016 – Ecosystems Matter Organised by ICLIF-MINDA	7 March 2017
	Performance Management System Training for Estates & Mills Management Organised by Boustead Estates Agency Sdn Bhd	25 April 2017
	FIDE Forum 1st Distinguished Board Leadership Series – "Efficient Inefficiency: Making Boards Effective in a Changing World"Organised by FIDE Forum	4 May 2017
	FIDE Forum Invitation – 2nd Distribution Board Leadership Series "Risk and Reward: What Must Board Know About A Sustainable Financial Institution Remuneration System for Senior Management and Material Risk Takers" Organised by FIDE Forum	8 June 2017
	Presentation on Companies Act 2016 by Messrs. Azmi & Associates Organised by Affin Hwang Investment Bank Berhad	17 July 2017

Name	Programme Title and Organiser	Date
Non-Independent Non-Executive Directors		
Tan Sri Dato' Seri Lodin Wok Kamaruddin	Global Banking Conference – China's Banking Industry: Opportunities for Growth Organised by Asian Institute of Chartered Bankers (AICB)	1 – 2 August 2017
	Half-Day Talk on Companies Act 2016 and Malaysian Code on Corporate Governance Organised by Boardroom Corporate Services (KL) Sdn Bhd	5 October 2017
	Affin Hwang Capital Conference Series 2017 – Opportunities Amidst Geo-Political Shifts Organised by Affin Hwang Investment Bank Berhad	5 October 2017
Daniel Ebinesan	Half Day Talk on: i. Code of Corporate Governance 2016; and ii. The Companies Act 2016	14 September 2017
	Bursa Fraud Risk Management Workshop	26 September 2017
	Khazanah Megatrends Forum 2017	2 October 2017
	MFRS Training by Ernst & Young (EY)	4 October 2017
	Half-Day Talk on Companies Act 2016 and Malaysian Code on Corporate Governance Organised by Boardroom Corporate Services (KL) Sdn Bhd	5 October 2017
Independent Non-Executive Directors		
Mohd Suffian Hj Haron	Sustainability Engagement Series for Directors/Chief Executive Officers 2017	13 March 2017
	Half Day Talk on: i. Code of Corporate Governance 2016; and ii. The Companies Act 2016	14 September 2017
	CG Breakfast Series: Integrating an Innovation Mindset with Effective Governance	7 November 2017
	Half Day Talk on: i. The Implications of MFRS 9 on the business strategy; and ii. Cybersecurity Risk Implications	28 November 2017

Name	Programme Title and Organiser	Date
Independent Non-Executive Directors		
Izzat Othman	2017 Audit Committee Institute Breakfast Roundtable	28 April 2017
	CG Breakfast Series with Directors: "Board Excellence – How to Engage and Enthuse Beyond Compliance with Sustainability"	17 July 2017
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	National Seminar on The Malaysian Code on Corporate Government (New) – An Overview	19 April 2017
	A Seminar on Implementing a Risk Management & Internal Control Framework Based on The Malaysian Code of Corporate Governance 2017	26 July 2017
	CG Breakfast Series for Directors: "Leading in a Volatile, Uncertain, Complex, Ambiguous (VUCA) World.	13 October 2017
	Seminar on Interpreting, Analysing and Probing Financial Statements 2017	25 October 2017
	CDOP: Updates on Companies Act 2016 and Its Implications to Directors & the New Malaysian Code on Corporate Governance	26 October 2017
	CDOP: Updates on the roles and responsibilities of Company Directors	21 – 22 November 2017

Corporate Governance Overview Statement

CORPORATE GOVERNANCE PRIORITIES (2018 AND BEYOND)

The Board recognises that there are always opportunities for improvement in its corporate governance activities in order for the Group to continue to engender trust and confidence amongst stakeholders. The Board has identified the following set pieces on its horizon that will help it to achieve its corporate governance objectives.

YEAR 2019

↓

2021

BOARDROOM DIVERSITY

The Board recognises the importance of diversity in averting "groupthink" and "blindspots" in the deliberation and decision making process. Recognising gender as a key facet of the various diversity dimensions, the Board endeavours to establish and formalise a diversity policy, set targets, measures and annually assess both the targets and the progress in achieving them.

The Board is already committed to developing a corporate culture that also embraces the aspect of gender diversity. This is reflected by the present composition of Senior Management of the Group, more than 60% of which are women.

SUSTAINABILITY REPORTING

Pharmaniaga aims to leverage on its existing qualitative sustainability indices and adopt a more mature form of sustainability reporting. The Board will set the direction for management to establish necessary systems and controls with the presence of quality non-financial data that will support the development of such forms of reporting. Pharmaniaga will also actively engage stakeholders to formalise a better understanding of what is expected and desired from its sustainability reporting.

Statement on Risk Management and Internal Control

RESPONSIBILITY

THE BOARD OF DIRECTORS

The Board of Directors (the Board) is responsible for the review of the adequacy and effectiveness of the Pharmaniaga Group's (the Group) risk management framework and internal control systems.

The Board is of the view that the risk management framework and internal control systems are designed to manage the Group's key areas of risk within an acceptable risk profile, rather than to totally eliminate the risk of failure, to achieve the policies, business goals and strategic objectives of the Group. The framework and systems can therefore only provide reasonable, rather than absolute assurance of effectiveness against material misstatement of financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the internal control systems when there are changes in business environment or amendments in regulatory guidelines. The process is regularly reviewed by the Board via the Audit Committee and accords with the guidelines for directors on internal control, the Statement on Risk Management and Internal Control: Guidelines for Directors of Public Listed Issuers.

THE MANAGEMENT

The management, within the Risk Management Framework is responsible for implementing the process of identifying and assessing the risks faced by the Group, and then designing, implementing and monitoring suitable internal controls to mitigate and control these risks. The Board, through the Audit Committee ensures that the management undertakes such actions as may be necessary in the implementation of the policies and procedures on risk and control approved by the Board.

A formal Management Control Policy (MCP) spells out the internal control responsibilities of the managers, at all levels of the organisation to ensure that they are at all times fully aware of their internal control's responsibilities. The MCP also clarifies the responsibilities of the Internal Audit function and the Audit Committee to complement the Terms of Reference of the Audit Committee, the Internal Audit Charter and this Statement on Risk Management and Internal Control.

KEY ELEMENTS OF RISK MANAGEMENT FRAMEWORK

Risk management is firmly embedded in the Group's management system and is every employee's responsibility as the Group strongly believes that risk management is critical for the Group's continued profitability and the enhancement of shareholder value.

The management, through the RMWC, is entrusted with the responsibility of implementing and maintaining the Group's Risk Management Framework. The RMWC is headed by the Managing Director and assisted by the Division Directors to drive the Risk Management of the Group. The Group's Risk Management Framework has the following key attributes:

- **Risk Governance and Strategy**

  The risk governance and strategy are established within the Group in three levels:

  i. Day-to-day risk management residing at the business units and divisions through practical controlling processes that require and encourage the management and employees to carry out their duties in an ethically compliant manner.
  ii. As outlined in the MCP, the Division Directors are entrusted to:

     - Evaluate the risk exposures which relate to their particular spheres of operations;

- Coordinate the development of appropriate risk mitigation action plans;
- Update the Business Continuity Plan for key business risks;
- Monitor the results of key performance indicators; and
- Ensure good corporate governance.

iii. The Audit Committee via the Internal Audit function is responsible for monitoring the responsibilities of the management and reporting to the Board matters deemed critical to the organisation's risk management activities including the implementation of the appropriate systems to manage risks at an appropriate level.

- **Risk Analysis and Measurement**

In line with the Group's focus on expanding its business activities, the RMWC had undertaken a more detailed approach towards assessing risks relating to doing business locally and internationally. The Group's Risk Register has been established and updated regularly to align the risk appetites of the Group to the business plan and to fit them into the Risk Management Framework. The Risk Register analyses the different risk exposures and appetites across different divisions within the Group and examines the root cause and potential consequences of the identified risks to the operations of the divisions. The Risk Register also documents the ratings of risks to facilitate the development of the appropriate and optimal action plans by the management. Action plans to mitigate and manage risks will be included in the register to ensure clear commitments and responsibilities are agreed at all levels in the organisation. During the year, the Risk Register was reviewed in the Risk Management meetings, and RMWC concluded that the Group's Risk Management provides reasonable control to mitigate the exposure to significant risks.

Consistent with the Group's commitment to manage risk in a proactive and effective manner, all project investment papers outline the risks involved with ratings on the probability and impact to the Group. The papers also propose steps or factors to mitigate the identified risks.

- **Risk Reporting**

The Group's Risk Management Framework provides for regular review and reporting. For the financial year 2017, the RMWC met twice, on 12 May 2017 and 10 November 2017. At the meetings, the RMWC assessed the overall risk profile and appetite of the Group, identified the significant risks, updated the Risk Register and prepared the action plans for mitigation. Risk assessment reports comprising the Action Plans on Significant Risk and Risk Register were tabled to the Board on 16 May 2017 and 15 November 2017. In addition, the reports were submitted to the Group Internal Auditors for an independent assessment on the adequacy and reliability of the risk management processes within the Group.

The Group will continue to focus on the key risks and corresponding controls to ensure that they are able to respond effectively to the changing business and competitive environment to enhance shareholder value. Where necessary and feasible, additional controls will be promulgated for implementation.

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

Audit Committee

The Audit Committee is responsible for overseeing, monitoring and evaluating the duties and responsibilities of the Internal and External Auditors as those duties and responsibilities relate to the organisation's processes for controlling its operations.

The Audit Committee is also responsible for determining that all major issues reported by the Internal Auditors, the External Auditors and other outside advisors have been satisfactorily resolved by the management. Finally, the Audit Committee is responsible for assisting and reporting to the Board, matters which are deemed critical to the organisation's controlling processes and risk management activities including the implementation of the appropriate systems to manage risks. The Board, through the Audit Committee maintains risk oversight for the Group.

Group Internal Audit

The Group Internal Auditors from Boustead Holdings Berhad's principal responsibility is to provide independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and enhance the effectiveness of risk management, control and governance processes. Group Internal Audit (GIA) carries out audit based on the plan approved by the Audit Committee annually. GIA adopts a risk based methodology in planning and conducting audit by focusing on key risk areas.

The terms of reference for GIA are clearly spelt out in the GIA Charter approved by the Audit Committee. GIA operates and performs in accordance to the principles of the Charter, reports directly to the Audit Committee and is independent of the activities it audits.

Areas of improvements have been identified as a result of the review, improvement measures are recommended to strengthen controls and follow up audits are conducted by the GIA to assess the status of implementation thereof by the management.

CONTROL SYSTEMS AND PRACTICES

The internal control system of the Group is supported by the control systems and practices which provide the discipline and structure, to sustain organisational support of the management and employees. The control systems and practices that encompass organisation structure, governance activities and practices include:

- **Operating structure with clearly defined lines of responsibility and delegated authority**

  An organisation structure with clearly defined lines of responsibility, limits of authority and accountability is aligned to business and operation requirements in order to support the maintenance of a strong control environment. The Group has seven divisions with each division been given clear responsibilities in terms of achieving the Group's objectives. Notably, the following divisions or units strengthen the Group's internal control framework:

  i. **Procurement**
  The Procurement unit is entrusted with internal control responsibilities for prices and contract negotiations for products and services. The Standard Procurement Policies and Procedures have also been put in place across the Group. The team envisions best procurement practices that emphasise minimising cost, ensuring competitive cycle times, eradicating leakages, enhancing transparency and developing an extensive supplier base.

ii. **Regulatory Affairs and Corporate Governance**
Regulatory Affairs and Corporate Governance Divisions establish compliance at all levels of the Group's operations and ensure they operate in accordance with relevant legislations. Ensuring strict compliance to Government regulations is of profound importance to the Group and these divisions will continue to monitor and refine the protocols and systems to ensure total conformity to legislation.

- **Written policies and procedures on the limits of delegated authority**

The Group has put in place a Limits of Authority (LOA) that sets out the appropriate authorisation limits of respective levels of management to ensure all transactions are properly authorised before they are undertaken. During the year, the LOA has been reviewed to ensure that they continue to be relevant and effective. The revised LOA has been distributed to the respective levels of management.

- **Clearly documented standard operating procedures manuals**

Policies and procedures for all key processes are clearly documented and reviewed at regular intervals. Certain subsidiary companies are certified under the various international standards such as ISO 9001:2015, ISO 14001:2015, ISO/IEC 17025:2005, OHSAS 18001:2007 and ISO/IEC 27001:2013.

The business operations of the Group are also governed by various regulations and laws applicable to the pharmaceutical and healthcare industry. Compliance audits are regularly conducted by various independent bodies for the various certifications and licences obtained from SIRIM, the National Pharmaceutical Regulatory Agency, JAKIM and certain multinational companies' evaluation committees.

The Board, either directly or through the Audit Committee, has been regularly briefed on any major findings arising from these independent audits.

- **Code of Conduct**

The Senior Management and the Board set the tone at the top for corporate behaviour and corporate governance. The Group has in place a Code of Conduct for employees to govern the standard of ethics and good conducts. All employees are subjected to the Company Policy on Confidentiality Agreement, Information Security Policies and Standards, Conflict of Interest Declaration, Statement of Integrity and Personal Data Protection Act 2010. Appropriate remedial and disciplinary measures such as warning letters and dismissal are also in place to deal with any breach of the above policies.

- **Strategic Business Planning, Budgeting and Reporting**

The Board plays an active role in strategic planning sessions held with management to discuss and review the plans, strategies, performance and risks faced by the Group. Strategic concerns were deliberated. Strategies and action plans were then reviewed and mandates were given to the management by the Board to carry out the agreed strategies and action plans.

Based on strategies identified, the Annual Operating and Three-Year Business Plan together with Key Performance Indicators (KPIs) were drawn up and approved by the Board in November 2017. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also revised based on changes in the business and operating environments. Inputs from the Board in the Strategic Planning Sessions are used to develop the Annual Operating and Three-Year Business Plan.

Business plans, budgets and KPIs are aligned to the Group's Three-Year Strategic Plan, to guide the Group in achieving its vision of becoming the preferred brand in healthcare in the markets we choose to serve. Measured actual achievements of financial and non-financial indicators against the approved budget and explanations for significant variances are tabled at monthly operations meetings and quarterly Board meetings. Effective utilisation of the budget is attained through regular monitoring by the management.

The Group has also established processes and procedures to ensure the unaudited quarterly results and annual audited financial statements, which covers the Company's performance, are submitted to Bursa Malaysia Securities Berhad (Bursa Malaysia) for release to stakeholders, on timely basis. All unaudited quarterly results are reviewed and approved by the Board prior to announcement.

The annual report of the Company that includes the annual audited financial statements together with the auditors' and directors' reports are issued to the shareholders within the stipulated time prescribed under the Main Market Listing Requirement (MMLR) of Bursa Malaysia.

- **Human Resources Policies and Procedures**

  Documented internal policies, standards and procedures are in place to ensure compliance with internal controls and relevant laws and regulations. Key policies and procedures, and advice and support provided include: performance management, annual performance review, disciplinary matters, recruitment and selection, learning and development, leave and grievance matters.

  An employee satisfaction survey is conducted periodically to gauge feedback on the effectiveness and efficiency of employee engagement for continuous improvement.

  Training and development programmes are identified and established to ensure that employees are continually trained and developed in order to be well equipped with enhanced skills and competencies to carry out their responsibilities toward achieving the Group's objectives.

  Manpower planning exercise is conducted on an annual basis within the Group with the allocated budget. The planning exercise enables the management to determine and to identify present and prospective needs of human capital resource and recruit the required number of suitable personnel. In addition, the management will also promote or transfer the employees as per the Group's requirements.

  Policies and procedures are issued to all Heads of Departments and reviews are conducted periodically to ensure all policies and procedures remain current and relevant. The relevant parts of the terms and conditions of employment and appropriate policies and procedures are included in the Employee Handbook which is accessible to all employees.

The policies and procedures are meant to provide consistent management of resources transactions across the Group. It is aimed to set out obligations, standards of behaviours and support in building the organisational culture.

- **Tender Award System**

  As part of the Group's continuous efforts to enhance transparency, coordination and control on procurement of goods and services for projects above a determined threshold, a Tender Committee, led by the Head of Procurement has been set up to increase efficiency and ensures the effectiveness of the system of internal controls are embedded in the process of awarding tenders.

- **Insurance**

  Adequate insurance and physical safeguards on major assets; buildings and machineries in all operating divisions and subsidiary companies are in place to ensure the Group's assets are sufficiently covered against any calamity that could result in material losses to the Group and/or its subsidiary companies.

- **Credit Management**

  The Group's credit management policy aims to minimise credit and payment risk by providing a set of rigorous criteria to identify the high risk customers in the private market, so the appropriate credit control can be duly executed and the identified customers can be closely monitored.

MONITORING

Relevant processes adopted to monitor the adequacy and integrity of the systems of internal control include:

- **Regular Monthly Reporting**

  Operational review meetings are conducted on a monthly basis to review and monitor matters pertaining to the business operations. The review is based on performance reports that provide comprehensive information on financial performance and other key non-financial indicators. Monthly performance is also reviewed against the targets allowing for timely response and corrective action to be taken to mitigate risk.

- **Performance Management**

  A structured Performance Management System (PMS) which is linked to and guided by the established Key Performance Indicators (KPIs) and Key Result Areas (KRAs) parameters has been implemented. The Group adopts the following Balance Scorecard quadrants (FCIO) to measure KPI achievements through the PMS:

  - Financial (F)
  - Customer (C)
  - Internal Business Process (I)
  - Organisational Learning & Growth (O)

  FCIO provides a framework to translate and align the Group's strategy into measurable operational terms and is being used as a business unit and corporate performance measurement tool. The Group adopts the 360-degree appraisal into PMS, which aims to further enhance the evaluation of individual as well as team performance. This system has been implemented for all executives and managerial levels.

- **Internal Audit Function**

  The Internal Audit function provides an independent, objective assurance on the areas of operations reviewed, and advise on the best practices that will improve and add value to the Group's internal control. The Group Internal Auditors from Boustead Holdings Berhad adopts a risk based methodology in planning and conducting audits by focusing on significant risks as identified by the management.

COMMUNICATION

A sound communication channel ensures important information to be identified, documented and shared in a form and timeframe that enable people to carry out their responsibilities effectively and efficiently. Platforms available to enhance transparent and effective communication include:

- **Assembly and session with the Management**

  The management is committed to a transparent and effective communication and values the feedback from employees in order to motivate them to deliver high quality and efficient services to the customers and other stakeholders. During the year, half-yearly employees' briefings were conducted as the platform of a two-way communication between the management and the employees, to bring up matters ranging from operations to welfare, and to celebrate company's achievements. The briefings were attended by all employees, within the Group, including the branches based in other locations via web conferencing.

- **Whistleblower Policy**

  The Whistleblower Policy provides a platform and acts as a mechanism for parties to channel their complaints or to provide information on fraud, wrongdoings or non-compliance to any rules or procedures by an employee or the management of the Group. The policy outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance and allows the whistleblower the opportunity to raise a concern outside their management line and in confidence. The identity of the whistleblower is kept confidential and protection is accorded to the whistleblower against any form of reprisal or retribution. Any concerns raised will be investigated and reported to the Board.

- **Do It Right First Time (DIRFT) Campaign**

  The DIRFT campaign was launched to inculcate a Quality Culture where each individual takes ownership of quality outcomes and always do things right first time. This campaign is a quality management concept which emphasises that defect prevention is more advantageous and cost effective than defect detection and associated work. In other words, prevention is better than cure. The DIRFT campaign aimed to convey three main themes:

  - Compliance is everyone's responsibility;
  - Coaching and mentoring; and
  - Assessment and recognition

  Throughout 2017, various activities have been organised for the employees at all branches in Malaysia in order to build and maintain the culture of compliance. The activities include:

  i. compliance messages that were communicated routinely to all employees via emails and announcements;

  ii. dialogue session with Regulatory Director to promote interactive discussion on compliance awareness;

iii. trainings to enhance the knowledge on internal control amongst staff;

iv. Environmental Conservation campaign; and

v. Healthy Living programme.

ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

All audit findings, recommendations and management actions are rigorously deliberated upon at Audit Committee meetings before being reported to the Board. Quarterly reports to the Audit Committee track the progress towards completion of all corrective actions taken on issues highlighted by the Group Internal Auditors.

The monitoring, review and reporting arrangements in place provide reasonable assurance that the structure of controls and their implementation are appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's businesses.

Such arrangements, however, do not eliminate the possibility of human error or deliberate circumvention of control procedures by employees and others. The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders' investment, the interest of customers, regulators, employees and the Group's assets.

ASSURANCE FROM MANAGEMENT

For the financial year under review, based on inquiry, information and assurances provided by the Managing Director and Chief Financial Officer, the Board is satisfied that the system of internal control was generally satisfactory. Measures are in place and continually being taken to ensure the ongoing adequacy and effectiveness of internal controls to safeguard the Group's assets and hence shareholders' investment.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia MMLR, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide (RPG) 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

This statement has been approved by the Board of Directors on 27 February 2018.

Audit Committee Report

The Board of Directors of Pharmaniaga Berhad is pleased to present the report of the Audit Committee for the financial year 2017.

MEETINGS

During the financial year 2017, the Audit Committee has convened four meetings, whereby the attendance at all meetings met the requisite quorum in which the majority of the members present were Independent Non-Executive Directors. The Company Secretary is responsible for ensuring meetings are arranged and held accordingly at least four times annually and duly minuted. The meetings were appropriately structured through the use of agendas, which were distributed to members with sufficient notification. The details of attendance of each member at the Audit Committee meetings held during the financial year are set out below:

Audit Committee Members	Status of Directorship	Independent	Meetings Attended
Mohd Suffian Haji Haron	Senior Independent Non-Executive Director (Chairman of the Committee)	Yes	4/4
Daniel Ebinesan	Non-Independent Non-Executive Director	No	4/4
Izzat Othman	Independent Non-Executive Director	Yes	4/4
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	Independent Non-Executive Director	Yes	4/4

The Managing Director, Chief Financial Officer, Head of Group Internal Audit and other Senior Management attended these meetings by invitation. The Audit Committee also invited the representatives of the External Auditors, Messrs. PricewaterhouseCoopers PLT to attend the meetings twice during the year at which private sessions, independent of the Managing Director and Senior Management, were held.

TERMS OF REFERENCE

The information on the Terms of Reference of the Audit Committee is available on Pharmaniaga's corporate website, www.pharmaniaga.com.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year 2017, the Audit Committee in the discharge of its functions and duties had carried out the following activities to meet its responsibilities:

Financial Reporting

- Reviewed the quarterly unaudited financial statements of the Company and the Group including announcements, before recommending them for approval by the Board of Directors. The Audit Committee concluded that the report presented a true and fair view of the Group's financial performance.

- Reviewed the annual audited financial statements of the Company and the Group with the external auditors prior to submission to the Board of Directors for approval.

The review was to ensure that the financial reporting and disclosures are in compliance with:

- provisions of the Companies Act 2016;
- Main Market Listing Requirement of Bursa Malaysia Securities Berhad;
- applicable approved accounting standards in Malaysia; and
- other relevant legal and regulatory requirements.

In the review of the annual audited financial statements, the Audit Committee discussed with management and the external auditors the accounting principles and standards that were applied and their judgment of the items that may affect the financial statements.

Internal Audit

- Reviewed the Group Internal Audit's (GIA) annual audit plan and budget for 2017 to ensure the adequacy of scope and comprehensiveness of the activities and coverage on auditable entities with significant and high risks.

- Reviewed the sufficiency of resources required and competencies of staff within the internal audit function to execute the annual audit plan.

- Reviewed and deliberated the internal audit reports issued by GIA and thereafter discussed the management's actions taken to improve and strengthen the control environment and prevent recurrence.

- Reviewed the adequacy and effectiveness of corrective actions taken by the management on all significant matters raised and monitored the corrective actions on the outstanding issues to ensure that all the key risks and control lapses have been addressed.

External Audit

- Reviewed with the external auditors:
  - their audit plan and scope of works for the year;
  - the results of the annual audit, their audit report for the financial year ended 31 December 2017 and management letter together with the management's response to the findings of the external auditors; and
  - significant audit and accounting matters noted during audit for the financial year ended 31 December 2017 in particular areas which involve significant accounting estimates and judgement:
    i) impairment assessment of goodwill;
    ii) impairment assessment of property, plant and equipment and intangible asset of the Group's small volume injectable plant;
    iii) recognition of deferred tax assets by the Group's small volume injectable subsidiary; and
    iv) recoverability of cost of investment in a small volume injectable subsidiary.

- Assessed the independence and objectivity of the external auditors during the year and prior to the appointment of the external auditors for ad-hoc non-audit services. This includes monitoring the fees of total non-audit work by the external auditors. The non-audit fees are disclosed in the Other Compliance Information in this annual report.

- Reviewed the audit fees, the number and experience of audit staff assigned to the audit engagement, resources and effectiveness of the external auditors.

- Received reports from the external auditors on their own policies regarding independence and the measures taken to control the quality of their works.

- Met with the external auditors twice during the year in the absence of the Managing Director and Senior Management.

Related Party Transactions

- Reviewed the quarterly updates on the related party transactions entered into by the Group, to ensure the transactions were at arm's length.

- Reviewed the Circular to Shareholders relating to shareholders' mandate for recurrent related party transactions of revenue or trading nature prior to recommending it for Board's approval.

Annual Reporting

- Reviewed and recommended the Corporate Governance Overview Statement, Corporate Governance Report, Statement on Risk Management and Internal Control, Audit Committee Report for the financial year ended 31 December 2017 and Circular to shareholders on Recurrent Related Party Transactions to the Board for approval for disclosures in the Annual Report.

Risk Management

The Audit Committee reviewed the overall risk profile of the Group's risk, the significant risks and provided guidance on the action plans to address the identified risks and further reported to the Board thereon.

During the year, two risk management meetings were held on 16 May 2017 and 15 November 2017 by the Risk Management Workgroup Committee with the Audit Committee. In the meeting, action plans on significant risks and the updated Risk Register were presented.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is carried out by GIA of Boustead Holdings Berhad. GIA function reports directly to the Audit Committee, and is independent of the activities it audits. GIA's authority, scope and responsibilities are governed by an Internal Audit Charter which is approved by the Audit Committee and aligned with the International Professional Practice Framework on Internal Auditing issued by the Institute of Internal Auditors. The Company has an adequately resourced internal audit function to assist the Audit Committee and the Board in maintaining an effective system of internal control, risk management and overall governance practices within the Group.

Mission

GIA's mission is to provide independent and objective assurance on governance, risk management and control systems of operations reviewed and make recommendations that will improve or add value to the Group.

During the financial year, GIA had undertaken the following activities to achieve the mission:

- Prepared the annual audit plans for approval by the Audit Committee;

- Performed risk-based audits based on the annual audit plan, including follow-up of matters from previous internal audit reports;

- Issued internal audit reports to the management on risk management, control and governance issues identified from the risk-based audits together with recommendations for improvements for these processes;

- Obtained updates from operating management on the agreed courses of action to rectify weaknesses identified and perform follow up audits to confirm if agreed recommendations have been correctly implemented, and are adhered to consistently;

- Reported on a quarterly basis to the Audit Committee the achievement of the audit plan and status of resources of GIA;

- Reviewed the procedures relating to related party transactions; and

- Liaised with the external auditors to optimise the use of resources and for effective coverage of the audit risks.

Scope and Coverage

GIA adopts a risk-based methodology in planning and conducting audits by focusing on key risks areas. During the year, GIA carried out audits based on the plan approved by the Audit Committee. The coverage of auditable areas takes into consideration the strategic and operational risks, audit history and request by Senior Management/Audit Committee that is aligned to the organisation's strategic objectives.

During the year, GIA has completed and issued 8 internal audit reports based on approved annual audit plan and request from the management. The audit conducted in 2017 covered a wide range of operational areas within the Group. Amongst the key areas covered during the financial year are:

- Inventory Management
- Financial Management
- Sales and Marketing
- Procurement Management
- Retail Pharmacy
- Project Management
- Environmental, Safety and Health
- Human Resource Management
- Statutory Compliance

GIA present audit reports that contain improvement opportunities, audit findings, management response and corrective actions in areas with significant risks, governance and internal control deficiencies to the Audit Committee on a quarterly basis to enable an evaluation of the adequacy and integrity of the Group's risk management, control and governance systems.

Resources and Continuous Development

There are a total of 37 internal auditors in Boustead Holdings Berhad in which they are teamed based on the various divisions within the Boustead Group. For the financial year ended 31 December 2017, 9 internal auditors carried out the audit in the Group and the total costs incurred for GIA amounted to RM320,889 inclusive of Goods and Services Tax (GST).

GIA continues its commitment to equip our internal auditors with adequate knowledge and proficiency. GIA staff had attended various relevant training and courses to enhance knowledge and proficiency. GIA staff also encouraged to take Certified Internal Auditor (CIA) and other professional certification. As at 31 December 2017, six had obtained CIAs. Meanwhile, 15 are pursuing the CIA qualification.

Statement of Directors' Responsibility for Preparation of Financial Statements

The financial statements of the Group and of the Company have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors take responsibility in ensuring that the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of the results and the cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

- Applied the appropriate and relevant accounting policies on a consistent basis;

- Made judgements and estimates that are prudent and reasonable; and

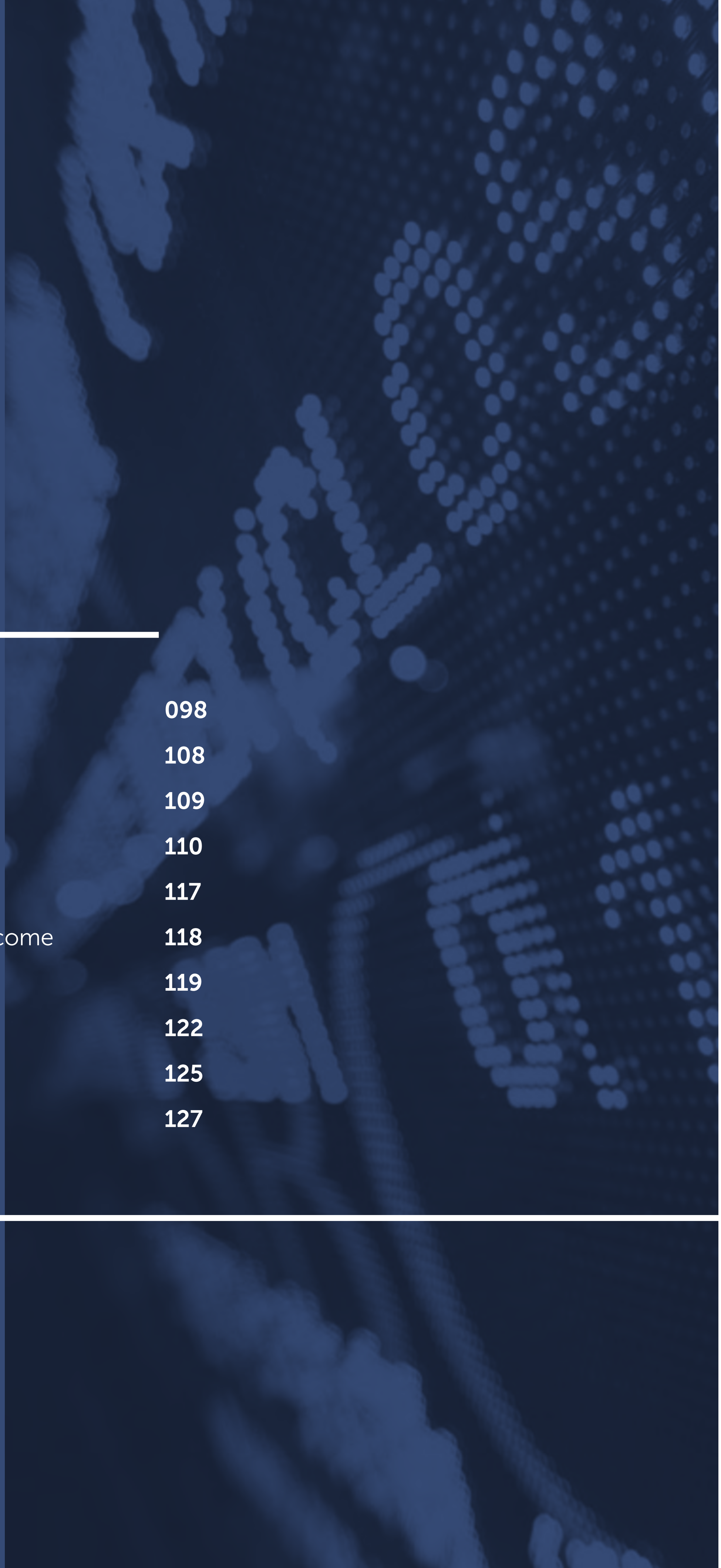
- Prepared the financial statements on the going concern basis.

The Directors are responsible to ensure that the Group and the Company keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and which enable them to ensure that the financial statements comply with the requirements of Companies Act 2016.

The Directors have overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and of the Company to prevent and detect fraud and other irregularities.

This statement has been approved by the Board of Directors on 1 March 2018.

FINANCIAL STATEMENTS



Directors' Report

The Directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are disclosed in Note 14 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit for the financial year	55,087	91,421
Attributable to:		
Owners of the parent	53,823	91,421
Non-controlling interests	1,264	-
	55,087	91,421

DIVIDENDS

Since the end of the previous financial year, the Directors have declared the following dividends in respect of the financial year ended 31 December 2017:

	Dividend Sen per share	Dividend RM'000	Payment Date
First interim single tier dividend	4.0	10,375	7 June 2017
Second interim single tier dividend	4.0	10,393	18 September 2017
Third interim single tier dividend	5.0	12,991	15 December 2017
Fourth interim single tier dividend	6.0	15,589	28 March 2018
	19.0	49,348	

The fourth interim single tier dividend of 6.0 sen per share amounting to RM15,589,000 mentioned above in respect of the financial year ended 31 December 2017 will be paid on 28 March 2018 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2017.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and paid-up share capital from RM129,688,566 to RM146,213,301 via the following:

(a) transfer of RM14,266,259 from the share premium account pursuant to the Companies Act 2016, which came into effect on 31 January 2017; and

(b) issuance of 443,900 ordinary shares pursuant to the Long Term Incentive Plan at no consideration.

The new ordinary shares issued during the financial year ranked pari passu in all respect with the existing ordinary shares of the Company.

SHARE SCHEME

On 13 May 2016, the Company implemented the Share Scheme comprising Option Plan and Long Term Incentive Plan ("LTIP") after approval was obtained from Bursa Malaysia Securities Berhad ("Bursa Securities"). The Share Scheme is governed by By-Laws approved by the Company's shareholders at the Extraordinary General Meeting held on 29 March 2016.

Option Plan

The principal features of the Option Plan are as follows:

(a) Directors and selected Senior Management Officers ("Eligible Employees") can subscribe under the Option Plan for new ordinary share in the Company. The number of options granted is subject to the seniority of the respective Eligible Employees as provided under the Option Plan By-Laws.

(b) Options granted under the Option Plan shall expire on 14 May 2021. Any extension of time of the Option Plan would have to be approved by the relevant authorities and shareholders of the Company in a general meeting. The Company in a general meeting may terminate the Option Plan prior to the expiry date.

(c) The option price under the Option Plan shall be based on the weighted average market price of the shares as shown in the daily official list issued by the Bursa Securities for the five (5) Market Days immediately preceding the date of offer subject to a discount not more than ten percent (10%) at the Scheme Committee's discretion.

(d) The new ordinary shares shall rank pari passu in all respect with the existing ordinary shares of the Company.

SHARE SCHEME (CONTINUED)

Option Plan (continued)

As at 31 December 2017, particulars of the outstanding options granted under the Option Plan were as follows:

		Number of options over ordinary shares			
Date of grant	**Option price**	**At 1.1.2017**	**Granted**	**Exercised**	**At 31.12.2017**
13 May 2016	RM5.04	15,640,000	-	-	15,640,000

Details of the persons who were granted options to subscribe shares under the Option Plan during the financial year, other than Directors, are as follows:

	Number of options over ordinary shares			
	At 1.1.2017	**Granted**	**Exercised**	**At 31.12.2017**
Datin Shamsinar Haji Shaari	375,000	-	-	375,000
Sharifah Fauziyah Syed Mohthar	375,000	-	-	375,000
Mohamed Iqbal Abdul Rahman	350,000	-	-	350,000
Norai'ni Mohamed Ali	350,000	-	-	350,000
Abdul Malik Mohamed	300,000	-	-	300,000
Zulhazri Razali	290,000	-	-	290,000

Details of options granted to Directors under the Option Plan are disclosed in the section on Directors' Interests in Shares of this report.

The other details of Share Scheme are disclosed in Note 29 to the financial statements.

Long Term Incentive Plan

The principal features of the LTIP are as follows:

(a) Subject always to the eligibility criteria set out below, the Executive Director and Eligible Employees of the Group are awarded with new ordinary shares in the Company for nil consideration:
   - if he has attained the age of 18 years, is not an undischarged bankrupt and is not subject to any bankruptcy proceedings;
   - if he entered into a full-time or fixed term contract with, and is on the payroll of the Group, and whose service has been confirmed;
   - if he is serving in a specific designation under an employment contract, whether on a permanent contract or for a fixed duration (or any other contract as may be determined by the Scheme Committee); and
   - if he fulfils any other criteria and/or falls within such category as may be determined by the Scheme Committee from time to time.

SHARE SCHEME (CONTINUED)

Long Term Incentive Plan (continued)

(b) Shares granted are vested to the Executive Director and Eligible Employees in tranches over a period of up to 3 years, the vesting conditions of which are to be determined by the Scheme Committee.

(c) Executive Director and Eligible Employees are awarded with new ordinary shares in the Company for nil consideration.

(d) The value of the allocation per year to the Executive Director and Eligible Employees under the LTIP shall not exceed 6% of the audited profit after tax of the Group for the preceding financial year.

(e) The new ordinary shares shall rank pari passu in all respect with the existing ordinary shares of the Company.

As at 31 December 2017, particulars of the shares granted under the LTIP were as follows:

	Number of ordinary shares				
Date of grant	**At 1.1.2017**	**Granted**	**Vested**	**Lapsed**	**At 31.12.2017**
13 May 2016	581,600	-	(283,600)	(12,700)	285,300
18 May 2017	-	481,000	(160,300)	-	320,700

The total number of shares to be offered under the Share Scheme shall not in aggregate exceed 10% of the total issued and paid-up share capital of the Company at any point in time during the duration of the scheme. During the financial year, all shares under the LTIP were granted to selected Senior Management Officers.

SIGNIFICANT EVENT

Significant event during the financial year is disclosed in Note 38 to the financial statements.

DIRECTORS

The Directors who have held office during the financial year and during the period from the end of the financial year to the date of the report are as follows:

Tan Sri Dato' Seri Lodin Wok Kamaruddin
Dato' Farshila Emran
Mohd Suffian Haji Haron
Daniel Ebinesan
Izzat Othman
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

DIRECTORS (CONTINUED)

The names of the Directors of the Company's subsidiaries since the beginning of the financial year to the date of this report, excluding those who are already listed above are as follows:

Mohamed Iqbal Abdul Rahman
Norai'ni Mohamed Ali
Datin Shamsinar Haji Shaari
Sharifah Fauziyah Syed Mohthar
Abdul Malik Mohamed
Zulhazri Razali
Yang Fairuz binti Abdul Aziz
Mohd Saharuddin bin Othman
Shahanaz bin Sulaiman
Badarulhisam bin Abdul Rahman
Yusni Rizal bin Khairul Anuar
Norhana binti Nawawi Suri
Muhammad Fauzi bin Abdul Hamid
Suzana binti Yahya
Mohd Izwan bin Ishak
Azleena binti Al Jeffri
Ahmad Nasir bin Che Hassan
Norman bin Ismail

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate emoluments received or due and receivable by the Directors as shown in Notes 7 and 8 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

The Directors and Officers of the Company are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudulently or dishonestly or derived any personal profit or advantage. The insurance is maintained on a group basis by Pharmaniaga Berhad and the total premium paid by Pharmaniaga Berhad during the financial year amounted to RM65,000.

REMUNERATION COMMITTEE

The Remuneration Committee reviews the remuneration packages, reward structure and fringe benefits applicable to the Managing Director and senior management in the Company on an annual basis and makes recommendation to the Board of Directors. The members of the Remuneration Committee are as follows:

Mohd Suffian Haji Haron (Chairman)
Tan Sri Dato' Seri Lodin Wok Kamaruddin
Izzat Othman

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, particulars of interests of Directors who held office at the end of the financial year in shares in the Company or its subsidiaries or its holding company or subsidiaries of the holding company were as follows:

	Number of ordinary shares			
	At 1.1.2017	**Acquired**	**Sold**	**At 31.12.2017**
The Company				
Direct interest				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	12,500,148	-	-	12,500,148
Dato' Farshila Emran	129,000	117,300	-	246,300
Mohd Suffian Haji Haron	-	60,000	-	60,000
Daniel Ebinesan	600,000	-	-	600,000
Immediate holding company				
Boustead Holdings Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	52,257,805	-	-	52,257,805
Daniel Ebinesan	309,170	-	-	309,170
Related corporations				
Boustead Heavy Industries Corporation Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	2,000,000	-	-	2,000,000
Mohd Suffian Haji Haron	20,000	-	-	20,000
Daniel Ebinesan	20	-	-	20
Boustead Petroleum Sdn. Bhd.				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	5,916,465	-	-	5,916,465

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	Number of ordinary shares			
	At 1.1.2017	Acquired	Sold	At 31.12.2017
Related corporations (continued)				
Boustead Plantations Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	27,836,800	-	-	27,836,800
Dato' Farshila Emran	450,000	-	(450,000)	-
Mohd Suffian Haji Haron	30,000	-	-	30,000
Daniel Ebinesan	1,295,500	-	-	1,295,500
Izzat Othman	250,000	-	-	250,000
Affin Holdings Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	1,051,328	-	-	1,051,328
Daniel Ebinesan	43,300	-	-	43,300

The number of options granted to the Directors pursuant to the Company's Option Plan are set out below:

	Number of options over ordinary shares			
	At 1.1.2017	Granted	Exercised	At 31.12.2017
The Company				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	3,800,000	-	-	3,800,000
Dato' Farshila Emran	2,000,000	-	-	2,000,000
Mohd Suffian Haji Haron	2,000,000	-	-	2,000,000
Daniel Ebinesan	1,800,000	-	-	1,800,000
Izzat Othman	2,000,000	-	-	2,000,000
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	2,000,000	-	-	2,000,000

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

The shares granted to a Director pursuant to the Company's Long Term Incentive Plan is set out below:

	Number of ordinary shares			
	At 1.1.2017	Granted	Vested	At 31.12.2017
The Company				
Dato' Farshila Emran	84,000	76,000	(67,300)	92,700

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

CONTINGENT AND OTHER LIABILITIES (CONTINUED)

At the date of this report, there does not exist:

(a) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

CHANGING CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

(a) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the year in which this report is made.

HOLDING CORPORATIONS

The Directors regard Boustead Holdings Berhad, a company incorporated in Malaysia, and Lembaga Tabung Angkatan Tentera ("LTAT"), a local statutory body established under the Tabung Angkatan Tentera Act, 1973, as the immediate holding company and ultimate holding corporation respectively.

SUBSIDIARIES

Details of subsidiaries are set out in Note 14 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 7 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 1 March 2018. Signed on behalf of the Board of Directors:

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
CHAIRMAN

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

Statement by Directors

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Tan Sri Dato' Seri Lodin Wok Kamaruddin and Dato' Farshila Emran, being two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 117 to 217 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and financial performance of the Group and of the Company for the financial year ended on 31 December 2017 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution dated 1 March 2018.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
CHAIRMAN

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

Statutory Declaration

PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Norai'ni Mohamed Ali, being the officer primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 117 to 217 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

NORAI'NI MOHAMED ALI

Subscribed and solemnly declared by the abovenamed Norai'ni Mohamed Ali at Kuala Lumpur on 1 March 2018, before me.

COMMISSIONER FOR OATHS

Independent Auditors' Report

to the members of Pharmaniaga Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Pharmaniaga Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 117 to 217.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our audit approach (Continued)

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill	
Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 16 (Impairment tests for goodwill). The Group's goodwill of RM133.3 million as at 31 December 2017 were allocated to 4 cash-generating units ("CGUs"), namely, Trading and distribution and Manufacturing CGUs in Malaysia and Indonesia. Goodwill is subject to annual impairment testing. We focused on this area as the determination of recoverable amounts of the assets in these 4 CGUs based on value-in-use calculations by management involved a significant degree of judgement and assumptions on sales volume growth rate and margins.	Our procedures performed in relation to management's impairment assessment and testing included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Checked the key assumptions used by management, in particular, sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Checked the discount rate used by comparing the rate used by comparable companies; • Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and • Assessed the adequacy of the disclosures in the financial statements. Based on the procedures performed, we noted no significant exceptions.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of property, plant and equipment and intangible asset of the Group's small volume injectable plant	
Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 12 (Impairment assessment for property, plant and equipment and capitalised development costs included within intangible asset). The carrying values of property, plant and equipment ("PPE") and intangible asset of the Group's small volume injectable plant as at 31 December 2017 are RM136.0 million and RM7.6 million respectively. The intangible asset relates to capitalised development costs work-in-progress and subject to annual impairment testing. An impairment assessment was perform by management on the small volume injectable plant because the plant has not been utilised at its maximum capacity as most of the products are still at development stage. Management assessed the impairment of intangible asset together with the PPE as one cash generating unit ("CGU"). The recoverable amount of the CGU is determined based on value-in-use calculations. No impairment was required as the recoverable amount of the CGU was in excess of the carrying amount of the assets within the CGU. We focused on this area as the impairment assessment performed by management requires significant judgement as the timing and quantum of the cash flows are dependent on sales volume growth rate, margin and terminal value of the land.	We examined the impairment assessment prepared by the management and our procedures included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Evaluated the methodology and reasonableness of the key assumptions used in determining the terminal value of land; • Checked the key assumptions used by management in the value-in-use calculations, in particular, sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Checked the discount rate used by comparing the rate used by comparable companies; • Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and • Assessed the adequacy of the disclosures in the financial statements. Based on the above procedures performed, we noted no significant exceptions.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Recognition of deferred tax assets by the Group's small volume injectable subsidiary Refer to Note 2(t) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 31 (Deferred Taxation). As at 31 December 2017, the Group has recognised deferred tax assets of RM13.5 million relating to the small volume injectable subsidiary. The deferred tax assets arose from unutilised tax losses and unabsorbed capital allowances. We focused on this area due to the continued losses recorded by the small volume injectable subsidiary and significant management judgement involved in determining the amount of deferred tax assets to be recognised based on the probability that future taxable profits will be available.	We evaluated management's assessment of the probability of utilisation of tax losses and capital allowances against future taxable profits, which have been used as the basis to recognise the deferred tax assets. Our procedures included the following: • Checked the key assumptions used in the future taxable profit projections, in particular, sales volume growth rate and margins by product comparing to business plans, historical results and market data; and • Assessed the reliability of management's forecasted future taxable profits through the review of past trends of actual financial performances against previous forecasted results. Based on our procedures, we noted no significant exceptions.
Recoverability of cost of investment in a small volume injectable subsidiary in the financial statements of the Company Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 14 (Subsidiaries). As at 31 December 2017, the carrying value of the cost of investment in the small volume injectable subsidiary is RM200.0 million. An impairment assessment was performed by management because the subsidiary's small volume injectable plant has not been utilised at its maximum capacity as most of the products are still at development stage. The recoverable amount of the investment is determined based on discounted future cash flows adjusted for tax and repayment of intercompany balances. No impairment was required as the recoverable amount was in excess of its carrying amount. We focused on this area as the recoverable amount of the investment is determined based on value-in-use method, which requires judgement on the part of management on the future financial performance of the subsidiary.	Our procedures in relation to management's impairment assessment included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Checked the key assumptions used by management in the value-in-use calculations on sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and • Assessed the adequacy of the disclosures in the financial statements. Based on the above procedures performed, we did not note any significant exceptions.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Managing Director's Review, Operations Review, Corporate Governance Overview Statement, Statement on Risk Management and Internal Control, Audit Committee Report, Directors' Report and other sections of the 2017 Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (Continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' Report

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 14 to the financial statements.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

AZIZAN BIN ZAKARIA
2930/05/18 (J)
Chartered Accountant

Kuala Lumpur
1 March 2018

Income Statements

for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Revenue	4	**2,323,960**	2,189,022	**119,394**	105,076
Cost of sales	5	**(1,988,798)**	(1,845,775)	**-**	-
Gross profit		**335,162**	343,247	**119,394**	105,076
Other income	7(b)	**9,006**	1,312	**39**	222
Administrative expenses		**(243,057)**	(239,877)	**(25,414)**	(22,580)
Finance costs	6	**(28,774)**	(33,703)	**(2,681)**	(4,117)
Interest income		**727**	1,038	**85**	-
Profit before zakat and taxation	7	**73,064**	72,017	**91,423**	78,601
Zakat		**(600)**	(250)	**-**	-
Taxation	9	**(17,377)**	(25,908)	**(2)**	-
Net profit for the financial year		**55,087**	45,859	**91,421**	78,601
Attributable to:					
Owners of the parent		**53,823**	45,599	**91,421**	78,601
Non-controlling interests		**1,264**	260	**-**	-
Net profit for the financial year		**55,087**	45,859	**91,421**	78,601
Earnings per share (sen):					
- Basic	10(a)	**20.74**	17.60		
- Diluted	10(b)	**20.69**	17.54		

The accompanying notes form an integral part of these financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Net profit for the financial year		**55,087**	45,859	**91,421**	78,601
Other comprehensive (loss)/income, net of tax:					
Items that will be subsequently reclassified to profit or loss					
Foreign currency translation differences for foreign operations		**(16,900)**	9,137	**-**	-
Items that will not be reclassified to profit or loss					
Recognition of actuarial losses	32	**(224)**	(74)	**-**	-
Other comprehensive (loss)/income, net of tax for the financial year		**(17,124)**	9,063	**-**	-
Total comprehensive income, net of tax for the financial year		**37,963**	54,922	**91,421**	78,601
Attributable to:					
Owners of the parent		**41,627**	53,009	**91,421**	78,601
Non-controlling interests		**(3,664)**	1,913	**-**	-
		37,963	54,922	**91,421**	78,601

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position

as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**410,854**	420,465	**-**	-
Prepaid lease payments	13	**2,281**	2,616	**-**	-
Subsidiaries	14	**-**	-	**589,786**	437,751
Investment in an associate	15	**-**	-	**-**	-
Intangible assets	16	**365,394**	342,796	**-**	-
Trade receivables	18	**9,472**	12,236	**-**	-
Other receivables	19	**5,674**	-	**5,674**	-
Amounts due from subsidiaries	20	**-**	-	**22,336**	139,046
Deferred tax assets	31	**35,437**	28,298	**-**	-
		829,112	806,411	**617,796**	576,797
Current assets					
Inventories	17	**484,993**	532,211	**-**	-
Trade receivables	18	**165,481**	161,276	**-**	-
Other receivables	19	**81,222**	95,013	**160**	8,668
Amounts due from subsidiaries	20	**-**	-	**34,932**	97,218
Tax recoverable		**19,049**	17,743	**-**	-
Deposits, cash and bank balances	22	**27,893**	70,456	**177**	377
		778,638	876,699	**35,269**	106,263
TOTAL ASSETS		**1,607,750**	1,683,110	**653,065**	683,060

Statements of Financial Position

as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Company					
Share capital	28	**146,213**	129,688	**146,213**	129,688
Share premium		**-**	14,266	**-**	14,266
Exchange reserve		**3,239**	15,319	**-**	-
Share reserve	29	**10,527**	5,821	**8,676**	4,521
Retained earnings	30	**368,067**	365,537	**241,333**	191,452
		528,046	530,631	**396,222**	339,927
Non-controlling interests		**19,081**	28,776	**-**	-
Total equity		**547,127**	559,407	**396,222**	339,927
Non-current liabilities					
Other payables	24	**457**	547	**457**	547
Deferred income	26	**4,864**	4,190	**-**	-
Borrowings	27	**401**	248	**-**	-
Deferred tax liabilities	31	**52,999**	48,105	**-**	-
Provision for defined benefit plan	32	**8,977**	8,593	**-**	-
		67,698	61,683	**457**	547

Statements of Financial Position
as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current liabilities					
Amounts due to subsidiaries	20	**-**	-	**194,310**	209,019
Amounts due to related companies	21	**2,670**	853	**-**	-
Trade payables	23	**499,426**	378,116	**-**	-
Other payables	24	**44,123**	63,788	**2,975**	3,493
Amount due to immediate holding company	25	**725**	472	**101**	74
Deferred income	26	**571**	424	**-**	-
Borrowings	27	**443,916**	616,664	**59,000**	130,000
Current tax liabilities		**1,494**	1,703	**-**	-
		992,925	1,062,020	**256,386**	342,586
Total liabilities		**1,060,623**	1,123,703	**256,843**	343,133
TOTAL EQUITY AND LIABILITIES		**1,607,750**	1,683,110	**653,065**	683,060

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2017

Group	Note	Share capital RM'000	Share premium RM'000	Exchange reserve RM'000	Share reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Equity attributable to equity holders of the Company							
At 1 January 2017		129,688	14,266	15,319	5,821	365,537	530,631	28,776	559,407
Adjustments for effects of Companies Act 2016	28	14,266	(14,266)	-	-	-	-	-	-
Net profit for the financial year		-	-	-	-	53,823	53,823	1,264	55,087
Other comprehensive loss		-	-	(12,080)	-	(116)	(12,196)	(4,928)	(17,124)
Total comprehensive (loss)/income for the financial year		-	-	(12,080)	-	53,707	41,627	(3,664)	37,963
Transactions with owners:									
Accretion of interests in subsidiaries		-	-	-	-	(9,637)	(9,637)	(6,455)	(16,092)
Issuance of shares by a subsidiary	14	-	-	-	-	-	-	398	398
Adjustments arising from the finalisation of purchase price allocation	14	-	-	-	-	-	-	282	282
Issuance of new shares:									
- Long Term Incentive Plan	28	2,259	-	-	(2,259)	-	-	-	-
Share options granted under Option Plan	29	-	-	-	4,331	-	4,331	-	4,331
Shares granted under Long Term Incentive Plan	29	-	-	-	2,634	-	2,634	-	2,634
Dividends:									
- owner of the Company	11	-	-	-	-	(41,540)	(41,540)	-	(41,540)
- non-controlling interests of a subsidiary		-	-	-	-	-	-	(256)	(256)
Total transaction with owners for the financial year		2,259	-	-	4,706	(51,177)	(44,212)	(6,031)	(50,243)
At 31 December 2017		146,213	-	3,239	10,527	368,067	528,046	19,081	547,127

Statements of Changes in Equity

for the financial year ended 31 December 2017

Group	Note	Share capital RM'000	Share premium RM'000	Exchange reserve RM'000	Share reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Equity attributable to equity holders of the Company							
At 1 January 2016		129,441	11,751	7,842	-	380,375	529,409	30,585	559,994
Net profit for the financial year		-	-	-	-	45,599	45,599	260	45,859
Other comprehensive income/(loss)		-	-	7,477	-	(67)	7,410	1,653	9,063
Total comprehensive income for the financial year		-	-	7,477	-	45,532	53,009	1,913	54,922
Transactions with owners:									
Accretion of interest in a subsidiary	14	-	-	-	-	(8,549)	(8,549)	(3,425)	(11,974)
Acquisition of a subsidiary	14	-	-	-	-	-	-	41	41
Issuance of new shares:									
- Option Plan	28	100	1,014	-	(106)	-	1,008	-	1,008
- Long Term Incentive Plan	28	147	1,501	-	-	-	1,648	-	1,648
Share options granted under Option Plan	29	-	-	-	4,278	-	4,278	-	4,278
Shares granted under Long Term Incentive Plan	29	-	-	-	1,649	-	1,649	-	1,649
Dividends:									
- owner of the Company	11	-	-	-	-	(51,821)	(51,821)	-	(51,821)
- non-controlling interests of a subsidiary		-	-	-	-	-	-	(338)	(338)
Total transaction with owners for the financial year		247	2,515	-	5,821	(60,370)	(51,787)	(3,722)	(55,509)
At 31 December 2016		129,688	14,266	15,319	5,821	365,537	530,631	28,776	559,407

Statements of Changes in Equity
for the financial year ended 31 December 2017

	Note	Share capital RM'000	Non-distributable Share premium RM'000	Non-distributable Share reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
Company						
At 1 January 2017		**129,688**	**14,266**	**4,521**	**191,452**	**339,927**
Adjustment for effects of Companies Act 2016	28	**14,266**	**(14,266)**	**-**	**-**	**-**
Total comprehensive income for the financial year		**-**	**-**	**-**	**91,421**	**91,421**
Transactions with owners:						
Issuance of new shares:						
- Long Term Incentive Plan	28	**2,259**	**-**	**(341)**	**-**	**1,918**
Share options granted under Option Plan	29	**-**	**-**	**4,331**	**-**	**4,331**
Shares granted under Long Term Incentive Plan	29	**-**	**-**	**165**	**-**	**165**
Dividends	11	**-**	**-**	**-**	**(41,540)**	**(41,540)**
Total transactions with owners for the financial year		**2,259**	**-**	**4,155**	**(41,540)**	**(35,126)**
At 31 December 2017		**146,213**	**-**	**8,676**	**241,333**	**396,222**
At 1 January 2016		129,441	11,751	-	164,672	305,864
Total comprehensive income for the financial year		-	-	-	78,601	78,601
Transactions with owners:						
Issuance of new shares:						
- Option Plan	28	100	1,014	(106)	-	1,008
- Long Term Incentive Plan	28	147	1,501	-	-	1,648
Share options granted under Option Plan	29	-	-	4,278	-	4,278
Shares granted under Long Term Incentive Plan	29	-	-	349	-	349
Dividends	11	-	-	-	(51,821)	(51,821)
Total transactions with owners for the financial year		247	2,515	4,521	(51,821)	(44,538)
At 31 December 2016		129,688	14,266	4,521	191,452	339,927

The accompanying notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**2,332,061**	2,201,462	**-**	-
Cash payments to suppliers and employees		**(2,044,399)**	(2,108,947)	**(15,680)**	(23,106)
Cash generated from/(used in) operations		**287,662**	92,515	**(15,680)**	(23,106)
Interest paid		**(29,338)**	(31,856)	**-**	-
Tax paid		**(18,953)**	(25,958)	**-**	-
Zakat paid		**(600)**	(250)	**-**	-
Interest received		**642**	985	**-**	-
Net cash generated from/(used in) operating activities		**239,413**	35,436	**(15,680)**	(23,106)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries (net of cash acquired)	14	**-**	(2,947)	**-**	(2,953)
Repayment of advance from/ (Advance to) a corporate shareholder of a subsidiary		**16,092**	(17,960)	**-**	-
Proceeds from disposal of property, plant and equipment		**79**	164	**-**	-
Purchase of property, plant and equipment	12	**(29,430)**	(43,639)	**-**	-
Purchase of intangible assets	16	**(49,164)**	(69,825)	**-**	-
Gross advances to subsidiaries		**-**	-	**(51,790)**	(58,342)
Gross repayments from subsidiaries		**-**	-	**29,100**	303
Net cash used in investing activities		**(62,423)**	(134,207)	**(22,690)**	(60,992)

Statements of Cash Flows
for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Acquisition of interest in a subsidiary from non-controlling interest	14	**(16,092)**	(11,974)	**-**	-
Issuance of shares		**-**	1,008	**-**	1,008
Proceed from issuance of shares in a subsidiary		**378**	-	**-**	-
Dividends paid to:					
- owners of the Company	11	**(41,540)**	(51,821)	**(41,540)**	(51,821)
- non-controlling interests of a subsidiary		**(256)**	(338)	**-**	-
Drawdown of short term borrowings		**955,730**	1,192,035	**191,000**	85,000
Interest paid		**-**	-	**(2,681)**	(4,117)
Repayment of short term borrowings		**(1,114,966)**	(983,480)	**(262,000)**	(35,000)
Gross advances received from subsidiaries		**-**	-	**374,492**	190,921
Gross repayments to subsidiaries		**-**	-	**(221,101)**	(101,705)
Net cash (used in)/generated from financing activities		**(216,746)**	145,430	**38,170**	84,286
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(39,756)**	46,659	**(200)**	188
Foreign exchange differences		**(2,807)**	1,279	**-**	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**70,456**	22,518	**377**	189
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	22	**27,893**	70,456	**177**	377

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2017

1. GENERAL INFORMATION

The Company is an investment holding company. The principal activities of its subsidiaries are disclosed in Note 14.

There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

The addresses of the registered office and principal place of business of the Company are as follows:

Registered office:

28th Floor, Menara Boustead
69 Jalan Raja Chulan
50200 Kuala Lumpur

Principal place of business:

7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan

The Directors regard Boustead Holdings Berhad, a company incorporated in Malaysia, and Lembaga Tabung Angkatan Tentera ("LTAT"), a local statutory body established under the Tabung Angkatan Tentera Act, 1973, as the immediate holding company and ultimate holding corporation respectively.

The financial statements are presented in Ringgit Malaysia and rounded to the nearest thousand, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group and the Company's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Standards, amendments to published standards and interpretations that are effective

On 1 January 2017, the Group and the Company has applied the following improvements and amendments to published standards:

Amendments to MFRS 107 "Statement of Cash Flows"	Disclosure Initiative
Amendments to MFRS 112 "Income Taxes"	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective

At the date of authorisation of the financial statements, the following standards and amendments have been issued and are effective for financial year beginning after 1 January 2017 and have not been applied by the Group:

(i) Financial year beginning on/after 1 January 2018

- MFRS 15 "Revenue from Contracts with Customers"

MFRS 15 "Revenue from Contracts with Customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contract" and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, that is, when the customer has the ability to direct the use and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:
- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligation; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:
- Any bundled goods or services that are distinct must be separately recognised and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success fees of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point of revenue recognition may shift: some revenue which recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

- MFRS 15 "Revenue from Contracts with Customers"(continued)

  The Group has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

  - Revenue relating to sales of good will be recognised when control of the products has transferred, being the point when the products are delivered to the customer. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, the timing and amount of revenue recognised for the sale of good under MFRS 15 is unlikely to be materially different from its current practice.

  - Revenue relating to services will be recognised in the accounting period in which the services are rendered. Revenue from contracts include multiple deliverables, such as system and equipment design, planning, installation and commissioning contracts. It is therefore accounted for as a separate performance obligation under MFRS 15. The transaction price will be allocated to each performance obligation based on the stand-alone selling price. Revenue relating to revenue from contract will be recognised over time based on the entity's progress towards complete satisfaction of that performance obligation. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the equipment is delivered, the legal title has passed and the customer has accepted the equipment. The Group does not expect the revenue recognition for services under MFRS 15 to be materially different from its current practice.

  - Presentation of contract assets and contract liabilities in the balance sheet – MFRS 15 requires separate presentation of contract assets and contract liabilities in the Statements of Financial Position. This will result in some reclassifications as of 1 January 2018 in relation to contracts assets and contract liabilities.

  The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

- MFRS 9 "Financial Instruments"

  MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

  - The financial assets held by the Group are debt instruments currently classified as loans and receivables and measured at amortised cost which meet the conditions for classification at amortised cost under MFRS 9.

    Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

- MFRS 9 "Financial Instruments" (continued)

  - There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from MFRS 139 "Financial Instruments: Recognition and Measurement" and have not been changed.

  - The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value after other comprehensive income, contract assets under MFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. This new impairment model may have an impact on Group's financial results given the Group's significant financial assets balances at each reporting date.

  - The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

  The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

- Amendments to MFRS 2 "Share-based Payment" (effective from 1 January 2018) deal with classification and measurement of share-based payment transactions. The amendments provides specific guidance on how to account for the following situations:
  (a) The effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
  (b) Share-based payment transactions with a net settlement feature for withholding tax obligations; and
  (c) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  The Group and the Company is assessing the impact of the above amendments to published standard on the financial statements of the Group and of the Company in the year of initial adoption.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the "date of the transaction" to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine "the date of transaction" when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk. If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

  The Group and the Company is assessing the impact of the above IC Interpretation to published standard on the financial statements of the Group and of the Company in the year of initial adoption.

(ii) Financial year beginning on/after 1 January 2019

- MFRS 16 "Leases" (effective from 1 January 2019) supersedes MFRS 117 "Leases" and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirement in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

  The Group and the Company is assessing the impact of the above new standard on the financial statements of the Group and of the Company in the year of initial adoption.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2019 (continued)

- Annual improvements to MFRSs 2015 - 2017 Cycle (amendments to MFRS 3 "Business Combinations", MFRS 112 "Income Taxes" and MFRS 123 "Borrowing Costs") effective from 1 January 2019.

  The Group and the Company is assessing the impact of the above amendments to published standards on the financial statements of the Group and of the Company in the year of initial adoption.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The Group applies the acquisition method to account for business combination under common control.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, any gains or losses arising from such remeasurement are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Changes in ownership interests in subsidiaries without change of control

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate because of loss of control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(iii) Disposal of subsidiaries (continued)

Gain or loss on the disposal of subsidiaries includes the carrying amount of goodwill relating to the subsidiaries sold.

(iv) Associates

Associates are all entities in which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associate in profit or loss, and the Group's share of movements in other comprehensive income of the associate in other comprehensive income. Dividend received or receivable from an associate are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group's investment in associate includes goodwill identified on acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profit and losses resulting from upstream and downstream transactions of the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to equity account its associate because of a loss of significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(iv) Associates (continued)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(d) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies (continued)

(iii) Group companies (continued)

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows: (continued)

- income and expenses for each income statement and statement of comprehensive income presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to profit or loss, as part of the gain and loss on disposal. In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(e) Property, plant and equipment

All property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses except for freehold land and capital work-in-progress which are not depreciated. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management, net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the government.

When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property, plant and equipment. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (see accounting policy Note 2(o) on borrowings and borrowing costs).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Gains or losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of the respective leases that ranges from 32 to 99 years. Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Freehold buildings	2% - 5%
Leasehold buildings	2% - 5%
Motor vehicles	20% - 25%
Plant and machinery	5% - 20%
Furniture and fittings	10% - 25%
Renovation	5% - 25%
Equipment	5% - 25%

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date. The effects of any revision of the residual values and useful lives are included in profit or loss for the financial year in which the changes arise.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(j) on impairment of non-financial assets.

(f) Prepaid lease payments

Payment for rights to use land over a predetermined period is classified as prepaid lease payments that is accounted for as an operating lease and is stated at cost less accumulated amortisation and accumulated impairment losses.

Prepaid lease payments are amortised on a straight-line basis over the lease period ranging from 20 to 33 years.

2. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g) Investments in subsidiaries and associate in separate financial statements

In the Company's separate financial statements, investments in subsidiaries and associate are carried at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2(j) on impairment of non-financial assets.

On disposal of an investment, the difference between disposal proceed and its carrying amount of the investment is recognised in profit or loss.

The amounts due from subsidiaries of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiaries.

(h) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and business combination and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. See accounting policy Note 2(j) on impairment of non-financial assets.

(ii) Software

Acquired software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. This cost is amortised over its estimated useful life of 10 to 15 years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (continued)

(iii) Rights to supply

Expenses incurred in providing and supplying to the Government of Malaysia certain hardware and software, being part and parcel of the ordinary contractual obligations under the Concession Agreement, are capitalised and carried at cost less accumulated amortisation and any accumulated impairment losses. The expenses are amortised over the concession period of 20 years. The title of the said hardware and software vests with the Government of Malaysia.

(iv) Manufacturing licences

Manufacturing licences acquired in a business combination is recognised at fair value at the acquisition date. The manufacturing licences represent the rights to manufacture pharmaceutical products in Indonesia and Malaysia. The licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of pharmacy manufacturing licence over a period ranging from 6 years to 9 years.

(v) Trade name

Trade name acquired in a business combination is recognised at fair value at the acquisition date. Trade name represents the in-house branded generic products and has a finite useful life and is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trade name over a period of 15 years.

(vi) Intellectual property

Intellectual property acquired in a business combination is recognised at fair value at the acquisition date. Intellectual property represents the patent rights for stevia formula and has a finite useful life and is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over a period of 15 years.

(i) Research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(ii) management intends to complete the intangible asset and use or sell it;
(iii) there is an ability to use or sell the intangible asset;
(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Research and development (continued)

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

Capitalised development costs recognised as intangible assets are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding 15 years.

Development costs work-in-progress is tested for impairment annually, in accordance with MFRS 136 "Impairment of Assets". See accounting policy Note 2(j) on impairment of non-financial assets.

(j) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or group of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Cost includes the actual cost of materials and incidental cost incurred in bringing the inventories to store. As for in-house manufactured finished goods and work-in-progress, labour and appropriate production overheads (based on normal operating capacity) are also included.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and the estimated costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Group. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value, with the amount of goods and services tax ("GST") included. The net amount of GST recoverable from the government is presented as GST receivables in Note 19.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows which are recoverable from, or payable to, the government are classified as operating cash flows.

After recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. See accounting policy Note 2(w) on impairment of financial assets.

(m) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the statement of financial position.

(n) Share capital

(i) Classification

Ordinary shares are classified as equity.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are deducted against equity.

(iii) Dividends distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Share capital (continued)

(iv) Basic earnings per share

Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(v) Diluted earnings per share

Diluted earnings per share adjust the figures in the determination of basic earnings per share to take into account:
- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowings and borrowing costs (continued)

Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value, with the amount of goods and services tax ("GST") included. The net amount of GST payable to the government is presented in other payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows which are recoverable from, or payable to, the government are classified as operating cash flows.

Trade payables are subsequently measured at amortised cost using the effective interest method.

(q) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group and the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years.

The Group's contributions to defined contribution plans, the national defined contribution plan, the Employees' Provident Fund are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(iii) Defined benefit plan

The defined benefit liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for actuarial gains/losses. The Group determines the present value of the defined benefit obligation with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting period.

The defined benefit obligation, calculated using the projected credit unit method, is determined by independent actuaries, by discounting the estimated future cash outflows using market yields at the reporting date on government securities which have currency and term to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The actuarial gains and losses are not subsequently reclassified to profit or loss in subsequent period.

The current service cost of the defined benefit plan reflects the increase in the defined benefit obligation resulting from employee service in the current year. It is recognised in the profit or loss in employee benefit expense, except where included in the cost of an asset.

(iv) Option Plan

The Group and the Company operates an equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the options granted in exchange for the services of the employees are recognised as employee benefit expense with a corresponding increase to share reserve within equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity’s share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for the employees to hold shares for a specific period of time).

Non-market vesting conditions and service conditions are included in assumptions about the number of options that are expected to vest.

The total expenses is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to share reserve in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(iv) Option Plan (continued)

In circumstances where employees provide services in advanced of the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds receives net of any directly attributable transaction costs are credited to share capital when the options are exercised. When options are not exercised and lapsed, the share option reserve is transferred to retained earnings.

(v) Deferred shares – Long Term Incentive Plan

The fair value of deferred shares granted to employees for nil consideration under the Long Term Incentive Plan is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share reserve. The number of share expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustment are recognised in profit and loss and the share reserve.

When share are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective from the date of the forfeiture.

In its separate financial statements of the Company, the shares granted by the Company over its equity instruments to the employees of subsidiary in the Group is treated as a capital contribution to the subsidiary. The fair value of shares granted to employees of the subsidiary in exchange for the services of the employees to the subsidiary are recognised as investment in subsidiary, with a corresponding credit to equity of the Company.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of goods and services

Revenue relating to sale of goods is recognised upon the transfer of risks and rewards of ownership of the goods net of returns and discounts. Revenue from services is recognised upon services rendered.

(ii) Contracts

Revenue from system and equipment design, planning, installation and commissioning contracts is recognised based on the percentage of completion method; the stage of completion is measured on the proportion of contract costs incurred for work performed to date over the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable of recovery. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately. Where costs incurred on such contracts plus recognised profits (less recognised losses) exceed progress billings, the balance is shown as amounts due from customers on contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amounts due to customers on contracts.

(iii) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

(iv) Dividend income

Dividend income is included in the income statement when the right to receive payment is established and no significant uncertainty exists as regards to its receipt. Interim dividends from subsidiaries are recognised when they are declared and final dividends when they are approved by shareholders in general meeting.

(t) Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associate. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference a deferred tax liability is not recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income taxes (continued)

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Financial assets

Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting date. These are classified as non-current assets.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group and the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets

Assets carried at amortised cost

The Group and the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(x) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and meet the definition of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

The Group has not designated any financial liabilities at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial liabilities (continued)

Other financial liabilities are recognised initially at fair value, net of directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the reporting date.

A financial liability is derecognised when the obligation under the liability is extinguished and the resulting gains or losses are recognised in profit or loss.

(y) Deferred income

(i) RoyalePharma cash vouchers

RoyalePharma cash vouchers issued are recognised at their fair values and presented as deferred income within current liabilities. It is credited to the profit or loss upon redemption or expiry of the vouchers.

(ii) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are recognised in the profit or loss over the period necessary to match the related costs for which the grants are intended to compensate.

(z) Contingent assets and liabilities

The Group does not recognise contingent assets and liabilities, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(aa) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Leases (continued)

Accounting by lessee

(i) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

(ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

(ab) Zakat

The Group recognised its obligations towards the payment of zakat on business in the profit or loss. Zakat payment is an option and recognised as and when the Group has a zakat obligation as a result of a zakat assessment. The amount of zakat expense shall be assessed when a company has been in operation for at least 12 months, i.e. for the period known as “haul”.

Zakat rates enacted or substantively enacted by the reporting date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for is 2.5% of the zakat base. The zakat base of the Group is determined based on the profit after tax of eligible companies within the Group after deducting certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continuously evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

<u>Impairment of property, plant and equipment and capitalised development costs</u>

The Group assesses whether there is any indication that property, plant and equipment and capitalised development costs are impaired at the end of each reporting date. Impairment is measured by comparing the carrying amount of an asset with its recoverable amount. Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flows derived from that asset discounted at an appropriate discount rate.

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a fifteen-year period that reflects the industry and product lifecycle from development, stability testing, product registration and commercialisation. The sales volume used in the value-in-use calculations is based on the respective product lifecycle and new products under development. The key assumptions used, results and conclusion of the impairment assessment are stated in Note 12.

<u>Impairment of goodwill</u>

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy in Note 2(j) on impairment of non-financial assets. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require use of estimates as set out in Note 16.

<u>Recognition of deferred tax assets by the Group's small volume injectable subsidiary</u>

As at 31 December 2017, the Group has deferred tax assets amounted to RM13.5 million relating to the small volume injectable subsidiary. The deferred tax assets arose from unutilised tax losses, unabsorbed capital allowances and deductible temporary differences. Deferred tax assets was recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unutilised tax losses or unabsorbed capital allowances can be utilised.

The future taxable profit projections are determined based on the Group's estimated future financial performance. The key assumptions such as sales volume growth rates and margins used in determining the future taxable profit projections of the small volume injectable subsidiary are set out in Note 12.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Recoverability of cost of investment in a small volume injectable subsidiary

The Group assesses whether there is any indication that the cost of investment in a small volume injectable subsidiary is impaired at the end of each reporting date. Impairment is measured by comparing the carrying amount of an asset with its recoverable amount. Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flows derived from the subsidiary discounted at an appropriate discount rate.

Projected future cash flows are based on the Company's estimates calculated based on the operating results, approved business plans, sector and industry trends as well as future economic conditions, changes in technology and other available information. The key assumptions used, results and conclusion of the impairment assessment are stated in Note 14.

4. REVENUE

		Group		Company	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Revenue consists of:					
Contracts	33	**28,258**	63,248	**-**	-
Sale of goods		**2,295,702**	2,125,774	**-**	-
Dividend income		**-**	-	**104,000**	94,500
Management fees		**-**	-	**15,394**	10,576
		2,323,960	2,189,022	**119,394**	105,076

5. COST OF SALES

		Group	
	Note	**2017 RM'000**	**2016 RM'000**
Cost of sales consists of:			
Amortisation of intangible assets	16	**14,880**	11,773
Depreciation of property, plant and equipment	12	**15,743**	17,962
Employee benefit expenses	8	**35,993**	38,553
Changes in inventories of finished goods		**1,720,952**	1,517,233
Impairment of slow moving and obsolete inventories		**1,518**	1,806
Inventories written off		**1,598**	534
Inventories written (back)/down		**(784)**	1,043
Raw materials and consumables used		**125,967**	150,028
Selling and distribution costs		**41,330**	35,269
Others		**7,658**	8,930
Cost of inventories sold		**1,964,855**	1,783,131
Contracts costs	33	**23,943**	62,644
		1,988,798	1,845,775

6. FINANCE COSTS

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Interest expenses on:				
- bankers' acceptances	**10,037**	9,336	**-**	-
- revolving credits	**10,595**	13,927	**2,681**	4,117
- foreign time loan	**8,142**	10,440	**-**	-
	28,774	33,703	**2,681**	4,117

7. PROFIT BEFORE ZAKAT AND TAXATION

(a) The following expenses (excluding finance costs) have been charged in arriving at profit before zakat and taxation:

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Amortisation of intangible assets	16	**17,928**	14,508	**-**	-
Amortisation of prepaid lease payments	13	**140**	133	**-**	-
Auditors' remuneration:					
(i) statutory audit fees					
- PricewaterhouseCoopers PLT, Malaysia		**539**	528	**181**	192
- firms other than member firms of PricewaterhouseCoopers International Limited		**242**	192	**-**	-
(ii) other non-audit fees		**274**	6	**210**	-
Bad debts written off		**16**	284	**-**	-
Directors' fees:					
- Executive	8	**30**	30	**-**	-
- Non-executive		**646**	646	**532**	532
Directors' other allowances and emoluments		**49**	183	**37**	122
Employee benefit expenses		**169,046**	168,350	**16,296**	12,614
Foreign exchange losses		**2,627**	968	**-**	-
Impairment loss on:					
- amounts due from subsidiaries	20(a)	**-**	-	**-**	2,993
- trade receivables	18	**570**	760	**-**	-
Impact of discounting effect on financial instruments		**2,955**	-	**2,955**	-

7. PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

(a) The following expenses (excluding finance costs) have been charged in arriving at profit before zakat and taxation: (continued)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Property, plant and equipment:					
- depreciation	12	**28,454**	31,291	**-**	-
- written off	12	**300**	56	**-**	-
Loss on disposal of property, plant and equipment		**73**	-	**-**	-
Impairment of slow moving and obsolete inventories		**5,255**	6,782	**-**	-
Management fees paid/payable to immediate holding company		**289**	306	**127**	161
Rental of premises		**8,810**	10,403	**5**	6
Rental of equipment		**3,337**	3,803	**58**	64
Research and development expenses		**1,797**	1,697	**-**	-

(b) Other income

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Compensation awarded	**8,010**	-	**-**	-
Gain on disposal of property, plant and equipment	**26**	116	**-**	-
Rental income	**14**	18	**-**	-
Utilisation of government grant	**-**	154	**-**	-
Foreign exchange gains	**570**	843	**17**	218
Others	**386**	181	**22**	4
	9,006	1,312	**39**	222

8. EMPLOYEE BENEFIT EXPENSES

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Salaries and bonuses		**113,011**	111,888	**8,032**	4,510
Defined contribution plan		**13,265**	12,496	**1,210**	634
Defined benefit plan	32	**1,693**	1,422	**-**	-
Share-based expenses:					
- Option plan		**3,785**	3,743	**3,785**	3,743
- Long term incentive plan		**2,224**	2,826	**(225)**	113
Other short-term employee benefits		**32,224**	33,065	**651**	707
		166,202	165,440	**13,453**	9,707
Executive Director's remuneration:					
- Salaries and bonuses		**1,598**	1,625	**1,598**	1,625
- Fee		**30**	30	**-**	-
- Defined contribution plan		**249**	216	**249**	216
- Share-based expenses:					
• Option plan		**546**	535	**546**	535
• Long term incentive plan		**390**	471	**390**	471
- Other short-term employee benefits		**61**	63	**60**	60
		2,874	2,940	**2,843**	2,907
Total		**169,076**	168,380	**16,296**	12,614
Employee benefit expenses included in:					
- cost of sales	5	**35,993**	38,553	**-**	-
- administrative expenses		**133,053**	129,797	**16,296**	12,614
Executive Director's fee	7(a)	**30**	30	**-**	-
		169,076	168,380	**16,296**	12,614

The estimated monetary value of benefits provided to a Director of the Company during the financial year amounted to RM37,200 (2016: RM37,200).

9. TAXATION

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current tax:					
- Malaysian income tax		**10,577**	16,905	**1**	-
- foreign income tax		**1,882**	1,134	**-**	-
- under/(over) provision in prior years		**5,012**	(3,064)	**1**	-
		17,471	14,975	**2**	-
Deferred taxation:					
- origination and reversal of temporary differences	31	**(94)**	10,933	**-**	-
Tax expense		**17,377**	25,908	**2**	-

A reconciliation of income tax expense applicable to profit before taxation after zakat at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit before taxation after zakat	**72,464**	71,767	**91,423**	78,601
Statutory income tax at rate of 24% (2016: 24%)	**17,391**	17,224	**21,941**	18,864
Different tax rates in other country	**(1,021)**	-	**-**	-
Tax effects of:				
Expenses not deductible for tax purpose	**8,458**	10,454	**2,494**	3,833
Expenses subject to double deduction	**(4,504)**	(4,052)	**-**	-
Income not subject to tax	**(82)**	(269)	**(24,991)**	(22,680)
Origination of deductible temporary differences not recognised in current year	**-**	5,615	**557**	-
Utilisation of previously unrecognised deductible temporary differences	**(7,877)**	-	**-**	(17)
Under/(over) provision of tax in prior years	**5,012**	(3,064)	**1**	-
Tax expense	**17,377**	25,908	**2**	-

10. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the profit attributable to ordinary equity holders of the Company for the financial year by the average number of ordinary shares in issue during the financial year.

	Group	
	2017	**2016**
Net profit attributable to owners of the Company (RM'000)	**53,823**	45,599
Weighted average number of ordinary shares in issue ('000)	**259,551**	259,107
Basic earnings per share (sen)	**20.74**	17.60

(b) Diluted earnings per share

For the diluted earnings per share calculation, the average number of ordinary shares in issue is adjusted to assume the full conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares for the Group are Option Plan and Long Term Incentive Plan ("LTIP").

For the shares granted under the Option Plan, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding shares under the Option Plan. The number of share calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share under the Option Plan. The difference is added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the "bonus" element in the ordinary share outstanding for the purpose of computing the dilution. No adjustment is made to profit for the financial year for the shares granted under the Option Plan calculation.

For the shares granted under the LTIP, the outstanding number of shares granted to eligible employees is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to profit for the financial year for the shares granted under LTIP calculation.

10. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share (continued)

	Group 2017	Group 2016
Net profit attributable to owners of the Company (RM'000)	**53,823**	45,599
Weighted average number of ordinary shares in issue ('000)	**259,551**	259,107
Assumed shares issued from the exercise of Option Plan ('000)	**-**	209
Assumed shares issued under Long Term Incentive Plan ('000)	**606**	582
Weighted average number of ordinary shares in issue ('000)	**260,157**	259,898
Diluted earnings per share (sen)	**20.69**	17.54

11. DIVIDENDS

Dividends recognised in respect of the current financial year are as follows:

	Company 2017 Dividend per share sen	Company 2017 Amount of dividend RM'000	Company 2016 Dividend per share sen	Company 2016 Amount of dividend RM'000
In respect of the financial year ended 31 December 2017:				
- First interim single tier dividend	**4.00**	**10,375**	-	-
- Second interim single tier dividend	**4.00**	**10,393**	-	-
- Third interim single tier dividend	**5.00**	**12,991**	-	-
In respect of the financial year ended 31 December 2016:				
- First interim single tier dividend	**-**	**-**	4.00	10,355
- Second interim single tier dividend	**-**	**-**	5.00	12,969
- Third interim single tier dividend	**-**	**-**	4.00	10,375
- Fourth interim single tier dividend	**3.00**	**7,781**	-	-
In respect of the financial year ended 31 December 2015:				
- Fourth interim single tier dividend	**-**	**-**	7.00	18,122
	16.00	**41,540**	20.00	51,821

11. DIVIDENDS (CONTINUED)

Subsequent to the end of the current financial year, the Directors have declared a fourth interim single tier dividend of 6.0 sen per share amounting to RM15,589,000 in respect of the financial year ended 31 December 2017. The dividend will be paid on 28 March 2018 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2017.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RM'000	Furniture, fittings, renovation and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Capital work-in-progress RM'000	Total RM'000
Group						
At 31 December 2017						
Cost	**302,234**	**121,921**	**12,251**	**262,523**	**41,958**	**740,887**
Accumulated depreciation	**(96,315)**	**(89,089)**	**(8,695)**	**(135,934)**	**-**	**(330,033)**
Net book value	**205,919**	**32,832**	**3,556**	**126,589**	**41,958**	**410,854**
At 31 December 2016						
Cost	302,474	118,538	12,013	246,040	48,593	727,658
Accumulated depreciation	(91,690)	(81,318)	(7,645)	(126,540)	-	(307,193)
Net book value	210,784	37,220	4,368	119,500	48,593	420,465

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Land and buildings RM'000	Furniture, fittings, renovation and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Capital work-in-progress RM'000	Total RM'000
Group							
Movements in net book value							
At 1 January 2017		**210,784**	**37,220**	**4,368**	**119,500**	**48,593**	**420,465**
Additions		**1,085**	**6,877**	**825**	**6,203**	**13,823**	**28,813**
Disposals		**(14)**	**(26)**	**-**	**(86)**	**-**	**(126)**
Written off	7(a)	**-**	**(292)**	**-**	**(4)**	**(4)**	**(300)**
Transfer to intangible assets	16	**-**	**(7,014)**	**-**	**(14)**	**-**	**(7,028)**
Reclassification		**73**	**6,230**	**-**	**14,151**	**(20,454)**	**-**
Depreciation charged	7(a)	**(5,429)**	**(9,352)**	**(1,539)**	**(12,134)**	**-**	**(28,454)**
Foreign exchange adjustments		**(580)**	**(811)**	**(98)**	**(1,027)**	**-**	**(2,516)**
At 31 December 2017		**205,919**	**32,832**	**3,556**	**126,589**	**41,958**	**410,854**
At 1 January 2016		215,561	36,705	4,441	123,763	25,714	406,184
Acquisition of a subsidiary	14	-	645	-	-	-	645
Additions		2,124	7,762	1,412	7,765	25,870	44,933
Disposals		-	(13)	(1)	(34)	-	(48)
Written off	7(a)	-	(54)	-	(2)	-	(56)
Transfer to intangible assets	16	-	(117)	-	(176)	-	(293)
Reclassification		(292)	1,982	-	1,302	(2,992)	-
Depreciation charged	7(a)	(6,931)	(9,747)	(1,495)	(13,118)	-	(31,291)
Foreign exchange adjustments		322	57	11	-	1	391
At 31 December 2016		210,784	37,220	4,368	119,500	48,593	420,465

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Leasehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
Group					
Analysis of land and buildings:					
At 31 December 2017					
Cost	**25,571**	**26,878**	**120,333**	**129,452**	**302,234**
Accumulated depreciation	**-**	**(3,431)**	**(34,625)**	**(58,259)**	**(96,315)**
Net book value	**25,571**	**23,447**	**85,708**	**71,193**	**205,919**
At 31 December 2016					
Cost	25,581	26,878	119,753	130,262	302,474
Accumulated depreciation	-	(2,964)	(32,623)	(56,103)	(91,690)
Net book value	25,581	23,914	87,130	74,159	210,784
Movements in net book value					
At 1 January 2017	**25,581**	**23,914**	**87,130**	**74,159**	**210,784**
Additions	**47**	**-**	**701**	**337**	**1,085**
Disposal	**-**	**-**	**-**	**(14)**	**(14)**
Reclassification	**-**	**-**	**-**	**73**	**73**
Depreciation charged	**-**	**(467)**	**(2,078)**	**(2,884)**	**(5,429)**
Foreign exchange adjustments	**(57)**	**-**	**(45)**	**(478)**	**(580)**
At 31 December 2017	**25,571**	**23,447**	**85,708**	**71,193**	**205,919**
At 1 January 2016	25,175	24,381	88,632	77,373	215,561
Additions	343	-	523	1,258	2,124
Reclassification	-	-	18	(310)	(292)
Depreciation charged	-	(467)	(2,052)	(4,412)	(6,931)
Foreign exchange adjustments	63	-	9	250	322
At 31 December 2016	25,581	23,914	87,130	74,159	210,784

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture and fittings RM'000	Renovation RM'000	Equipment RM'000	Total RM'000
Group				
Analysis of furniture, fittings, renovation and equipment:				
At 31 December 2017				
Cost	**26,939**	**38,155**	**56,827**	**121,921**
Accumulated depreciation	**(21,235)**	**(24,161)**	**(43,693)**	**(89,089)**
Net book value	**5,704**	**13,994**	**13,134**	**32,832**
At 31 December 2016				
Cost	26,224	33,909	58,405	118,538
Accumulated depreciation	(20,333)	(21,677)	(39,308)	(81,318)
Net book value	5,891	12,232	19,097	37,220
Movements in net book value				
At 1 January 2017	**5,891**	**12,232**	**19,097**	**37,220**
Additions	**1,133**	**2,531**	**3,213**	**6,877**
Disposals	**(21)**	**-**	**(5)**	**(26)**
Written off	**(49)**	**(242)**	**(1)**	**(292)**
Transfer to intangible assets	**(23)**	**(105)**	**(6,886)**	**(7,014)**
Reclassification	**436**	**2,564**	**3,230**	**6,230**
Depreciation charged	**(1,140)**	**(2,967)**	**(5,245)**	**(9,352)**
Foreign exchange adjustments	**(523)**	**(19)**	**(269)**	**(811)**
At 31 December 2017	**5,704**	**13,994**	**13,134**	**32,832**
At 1 January 2016	5,634	10,986	20,085	36,705
Acquisition of a subsidiary (Note 14)	-	-	645	645
Additions	860	3,021	3,881	7,762
Disposals	-	-	(13)	(13)
Written off	(38)	(5)	(11)	(54)
Transfer to intangible assets	(6)	(21)	(90)	(117)
Reclassification	522	987	473	1,982
Depreciation charged	(1,085)	(2,749)	(5,913)	(9,747)
Foreign exchange adjustments	4	13	40	57
At 31 December 2016	5,891	12,232	19,097	37,220

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense of the Group of RM15,743,000 (2016: RM17,962,000) has been charged in 'cost of sales' and RM12,711,000 (2016: RM13,329,000) in 'administrative expenses'.

Property, plant and equipment under hire purchase arrangements

Net book values of property, plant and equipment held under hire purchase arrangements are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Plant and machinery	**267**	830
Motor vehicles	**36**	113
Equipment	**1,527**	681
	1,830	1,624

The net cash outflows for the acquisition of property, plant and equipment during the financial year are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Acquisition of property, plant and equipment during the financial year	**28,813**	44,933
Less: Accrual of property, plant and equipment	**(491)**	(1,561)
Less: Acquired through hire purchase arrangement	**(453)**	(184)
Add: Payments for property, plant and equipment purchased in prior year	**1,561**	451
Net cash outflows for the acquisition of property, plant and equipment	**29,430**	43,639

Impairment assessment for property, plant and equipment and capitalised development costs of work-in-progress included within intangible assets in relation to small volume injectable production plant

An impairment assessment was undertaken in the current financial year for the Group's small volume injectable production plant as the plant has not been utilised at its maximum capacity as most of the products are still at developing stage.

The carrying amount of assets totalling RM143.6 million (2016: RM147.6 million) comprising property, plant and equipment and capitalised development costs of work-in-progress included in intangible assets as disclosed in Note 16 to the financial statements of RM136.0 million and RM7.6 million (2016: RM140.9 million and RM6.7 million) respectively within the manufacturing segment were tested for impairment.

The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment for property, plant and equipment and capitalised development costs of work-in-progress included within intangible assets in relation to small volume injectable production plant (continued)

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a fifteen-year period that reflects the industry and product lifecycle from development, stability testing, product registration and commercialisation. The sales volume used in the value-in-use calculations is based on the respective product lifecycle and new products under development. The fifteen-year projections were based on approved business plan. The business plan reflects the cash-generating unit's expectation of plant capacity and utilisation, revenue growth, operating costs and margins based on past experience, current assessment of market share and expectations of market growth.

The key assumptions used in the value-in-use calculations are set out below:

- Business analysis – The cash-generating unit makes assumptions about the demand for its existing products and new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation. The cash-generating unit also makes assumptions about cost levels determined based on the average inflation rate in Malaysia. The projected sales volume growth rates and margins by product ranges between -6% to 21% (2016: 1% to 20%) and -2% to 28% (2016: 3% to 52%) respectively.

- Values of land and buildings – The estimated value of the land of RM42.3 million (2016: RM42.3 million) is based on an independent external valuation. The value for the building and other property, plant and equipment is expected to be nil as these assets would be fully depreciated and scrapped at the end of the useful life with minimal terminal value.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 9.5% (2016: 10.5%) per annum has been applied. The discount rate reflects the prevailing market rate applicable to the industry adjusted for the risk of the assets.

No impairment loss was required for property, plant and equipment and capitalised development costs included within intangible assets as at 31 December 2017 as the recoverable amount of the small value injectable production plant cash generating units is in excess of its carrying amounts.

There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of the property, plant and equipment and capitalised development costs included within intangible assets to materially exceed the recoverable amount.

13. PREPAID LEASE PAYMENTS

	Note	Group 2017 RM'000	Group 2016 RM'000
Cost		**3,348**	3,543
Accumulated amortisation		**(1,067)**	(927)
Net book value		**2,281**	2,616
Movements in net book value			
At 1 January		**2,616**	2,628
Amortisation during the financial year	7(a)	**(140)**	(133)
Foreign exchange adjustments		**(195)**	121
At 31 December		**2,281**	2,616

14. SUBSIDIARIES

	Company 2017 RM'000	Company 2016 RM'000
Investments in subsidiaries:		
Unquoted shares, at cost	**586,954**	361,054
Less: Accumulated impairment	**(378)**	(378)
	586,576	360,676
Capital contribution to subsidiaries	**3,210**	1,414
Amount due from a subsidiary	**-**	79,434
Less: Accumulated impairment	**-**	(3,773)
	-	75,661
	589,786	437,751

Capital contribution to subsidiaries

The fair value of deferred shares granted to selected Senior Management Officers of subsidiaries of the Company in respect of the Company's share scheme is treated as capital contributions to the subsidiaries.

14. SUBSIDIARIES (CONTINUED)

Amount due from a subsidiary

The amount due from a subsidiary of which the Company does not expect repayment in the foreseeable future is considered as part of the Company's investment in the subsidiary.

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows:

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2017	2016
Subsidiaries of the Company				
Idaman Pharma Manufacturing Sdn. Bhd.	Manufacture and sale of pharmaceutical products	RM25,000,000	**100**	100
Pharmaniaga Manufacturing Berhad	Manufacture and sale of pharmaceutical products	RM10,000,000	**100**	100
Pharmaniaga LifeScience Sdn. Bhd.	Manufacture and sale of pharmaceutical products	RM200,000,000	**100**	100
Pharmaniaga Logistics Sdn. Bhd.	Distribution of pharmaceutical and medical products	RM40,000,000	**100**	100
Pharmaniaga Marketing Sdn. Bhd.	Trading and marketing of pharmaceutical and medical products	RM3,000,000	**100**	100
Pharmaniaga Research Centre Sdn. Bhd.	Conduct research and development of pharmaceutical products	RM10,000,000	**100**	100
Pharmaniaga Pristine Sdn. Bhd.	Trading and wholesaling of consumer products	RM20,000,050	**100**	100
Bio-Collagen Technologies Sdn. Bhd.	Research and manufacture of collagen medical devices (dressings) for wound management application	RM2,000,000	**70**	70

14. SUBSIDIARIES (CONTINUED)

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows: (continued)

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2017	2016
Subsidiaries of the Company (continued)				
Pharmaniaga International Corporation Sdn. Bhd.	Investment holding	RM103,000,000	**100**	100
Pharmaniaga Pegasus (Seychelles) Co. Ltd. @	Dormant	USD100,000	**100**	100
Subsidiary of Pharmaniaga Logistics Sdn. Bhd.				
Pharmaniaga Biomedical Sdn. Bhd.	Supply, trading and installation of medical and hospital equipment	RM8,000,000	**100**	100
Subsidiary of Pharmaniaga Pristine Sdn. Bhd.				
Paradigm Industry Sdn. Bhd.	Manufacture and sale of food supplements	RM100,000	**80**	-
Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd.				
PT Millennium Pharmacon International Tbk *# ("PT MPI")	Distribution and trading of pharmaceutical products, food supplements and diagnostic products in Indonesia	IDR127,400,000,000	**73**	55
PT Mega Pharmaniaga *# ("PT MegPha")	Dormant	IDR11,372,400,000	**95**	95

14. SUBSIDIARIES (CONTINUED)

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows: (continued)

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2017	2016
Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd. (continued)				
PT Errita Pharma *# ("PT Errita")	Manufacture and sale of pharmaceutical products in Indonesia	IDR95,832,000,000	**96**	85

* Audited by firms other than member firms of PricewaterhouseCoopers International Limited and PricewaterhouseCoopers PLT, Malaysia
@ Incorporated in Republic of Seychelles
# Incorporated in Indonesia

Impairment assessment for cost of investment in Pharmaniaga LifeScience Sdn. Bhd.

As described in Note 12 to the financial statements, the Company has undertaken an impairment assessment in the current financial year for its investment in a subsidiary that operates the Group's small volume injectable production plant using the same discounted future cash flows, adjusted for tax and repayment of intercompany balances. In measuring the recoverable amount determined based on value-in-use calculations, discount rate of 11.45% (2016: 11.42%) per annum, representing the cost of equity has been applied. Refer to Note 12 to the financial statements for the other key assumptions used in the projections.

No impairment loss was required for the investment in the subsidiary as at 31 December 2017 as the recoverable amount was in excess of its carrying amount.

There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of the cost of investment to materially exceed the recoverable amount.

Incorporation of a subsidiary during the financial year

On 13 January 2017, the Group had via its wholly owned subsidiary, Pharmaniaga Pristine Sdn. Bhd. ("PPSB"), subscribed to the total issued and paid-up capital of Paradigm Industry Sdn. Bhd. ("PISB") of RM2.00. On 29 March 2017, PISB increased its paid-up capital to RM100,000 through the issuance of 99,998 ordinary shares by way of capitalisation of amount owing to PPSB (80%) and Sweetleaves Health Sdn. Bhd. (20%).

14. SUBSIDIARIES (CONTINUED)

Subscription of additional ordinary shares in subsidiaries

During the financial year, the Company has:

(i) subscribed to additional 125,000,000 ordinary shares in Pharmaniaga LifeScience Sdn. Bhd., for a total consideration of RM125,000,000 by way of capitalisation of amount due from the subsidiary company; and
(ii) subscribed to additional 9,900,000 ordinary shares in Pharmaniaga Research Centre Sdn. Bhd., for a total consideration of RM9,900,000 by way of capitalisation of amount due from the subsidiary company; and
(iii) subscribed to additional 91,000,000 ordinary shares in Pharmaniaga International Corporation Sdn. Bhd., for a total consideration of RM91,000,000 by way of capitalisation of amount due from the subsidiary company.

Step-up acquisition in a subsidiary during the financial year

On 15 December 2017, the Group, through its wholly-owned subsidiary, Pharmaniaga International Corporation Sdn. Bhd. ("Pharmaniaga Corp"), completed the subscription of 535,137,534 ordinary shares representing 18% of the enlarged issued and paid-up capital in PT Pharmacon Millenium Tbk ("PT MPI") for a total cash consideration of IDR58,865,128,740 or equivalent to RM18,634,000 pursuant to PT MPI's rights issue exercise. Consequently, the Group's effective interest in PT MPI increased from 55% to 73% and this subscription is regarded as a transaction with owners of the Group. The gain of RM3,290,000 arising from the accretion of equity interest has been recognised in retained earnings of the Group during the financial year.

With the utilisation of proceeds from the rights issue exercise, on 20 December 2017, PT MPI has acquired 574,992 ordinary shares representing 15% equity interest of the issued and paid-up capital of PT Errita Pharma ("PT Errita") for a total cash consideration of USD3,600,000 and IDR10,024,531,778, which collectively amounted to IDR54,000,000,000 or equivalent to RM16,092,000. Consequently, the Group's effective interest in PT Errita increased from 85% to 96% and the increase is regarded as transaction with non-controlling interest. The loss of RM12,927,000 arising from the accretion of equity interest has been recognised in retained earnings of the Group during the financial year.

Acquisition of a subsidiary in the previous financial year

On 23 May 2016, the Company had completed the acquisition of 70% equity interest in Bio-Collagen Technologies Sdn. Bhd. ("Bio-Collagen"), a manufacturer of collagen medical devices (dressings) for wound management application, for a total cash consideration of RM3.5 million.

The Group had completed the final Purchase Price Allocation exercise on the above acquisition during the current financial year and the fair value of the identifiable net assets of Bio-Collagen attributable to the Group at acquisition date was increased from RM96,000 to RM752,000 with a corresponding decrease in goodwill of the same amount.

14. SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary in the previous financial year (continued)

The final fair value of the net assets acquired and cash flow arising from the acquisition are as follows:

	Provisional fair values at date of acquisition RM'000	Final fair values at date of acquisition RM'000
Property, plant and equipment	645	645
Intangible asset	150	714
Inventories	46	46
Other receivables	51	51
Cash and cash equivalents	6	6
Current tax liabilities	(139)	(106)
Deferred tax liabilities	(110)	(282)
Deferred income	(512)	-
Fair value of total identifiable net assets acquired	137	1,074
Less: Total fair value of net assets held by non-controlling interest	(41)	(322)
Identifiable net assets acquired	96	752
Goodwill on acquisition		2,748
Total purchase consideration		3,500
Less: Cash and cash equivalents of subsidiary acquired		(6)
Less: Remaining purchase consideration to be payable after 24 months from the date of completion		(547)
Cash outflow of the Group on acquisition of a subsidiary		**2,947**

The goodwill is attributable to Bio-Collagen's synergies expected to arise following the Group's acquisition of the new subsidiary.

On completion of the purchase price allocation, the goodwill on acquisition has been revised from RM3,404,000 to RM2,748,000. The difference of RM656,000 is not material and accordingly, the amount has been adjusted in the current financial year as disclosed in Note 16 to the financial statements.

In prior financial year, the acquisition-related costs of RM46,700 had been charged to administrative expenses in the consolidated income statement.

14. SUBSIDIARIES (CONTINUED)

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for the Group's subsidiaries, PT Errita Pharma ("PT Errita") and PT Millennium Pharmacon International TbK ("PT MPI") that have non-controlling interests that are material to the Group.

Summarised statements of financial position

	PT Errita		PT MPI	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current				
Assets	**29,139**	27,879	**256,700**	239,863
Liabilities	**(31,118)**	(29,454)	**(203,145)**	(189,410)
Total current net (liabilities)/assets	**(1,979)**	(1,575)	**53,555**	50,453
Non-current				
Assets	**30,806**	42,411	**22,908**	7,842
Liabilities	**(57)**	(1,214)	**(7,694)**	(7,356)
Total non-current net assets	**30,749**	41,197	**15,214**	486
Net assets	**28,770**	39,622	**68,769**	50,939
Net assets attributable to non-controlling interest at the end of the financial year	**1,148**	5,943	**18,293**	22,923
Proportion of effective equity interests held by non-controlling interests (%)	**4**	15	**27**	45

14. SUBSIDIARIES (CONTINUED)

Summarised financial information of subsidiaries with material non-controlling interests (continued)

Summarised income statements and statements of comprehensive income

	PT Errita		PT MPI	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Revenue	**47,904**	44,154	**690,156**	600,419
(Loss)/Profit before taxation	**(2,621)**	(6,990)	**7,484**	4,277
Taxation	**680**	824	**(2,684)**	(921)
Net (loss)/profit for the financial year	**(1,941)**	(6,166)	**4,800**	3,356
Other comprehensive (loss)/income	**(8,927)**	5,601	**(7,948)**	2,842
Total comprehensive (loss)/income, net of tax for the financial year	**(10,868)**	(565)	**(3,148)**	6,198
Net (loss)/profit for the financial year allocated to non-controlling interests	**(291)**	(925)	**2,160**	1,510
Total comprehensive (loss)/income allocated to non-controlling interests	**(1,630)**	(677)	**(1,417)**	2,789
Dividend paid to non-controlling interests	**-**	-	**256**	338

Summarised statements of cash flows

	PT Errita		PT MPI	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash (used in)/generated from operations	**(609)**	(2,615)	**2,564**	(10,661)
Interest paid	**(1,678)**	(885)	**(8,154)**	(9,793)
Tax (paid)/refund	**-**	-	**(2,072)**	912
Net cash used in operating activities	**(2,287)**	(3,500)	**(7,662)**	(19,542)
Net cash used in investing activities	**(2,385)**	(1,812)	**(17,995)**	(2,625)
Net cash generated from financing activities	**2,039**	8,149	**30,616**	24,427
Net changes in cash and cash equivalents	**(2,633)**	2,837	**4,959**	2,260
Cash and cash equivalents at beginning of financial year	**4,776**	1,646	**14,399**	11,180
Foreign exchange differences	**(255)**	293	**(2,457)**	959
Cash and cash equivalents at end of financial year	**1,888**	4,776	**16,901**	14,399

15. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares, at cost	**19**	19	**19**	19
Less: Accumulated impairment	**(19)**	(19)	**(19)**	(19)
	-	-	**-**	-

Details of the associate are as follows:

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2017	Effective equity interest (%) 2016
Pharmacare Asia Holdings (Cayman) Limited +	Dormant, pending strike off	USD4,900	49	49

\+ Incorporated in Cayman Island

There are no commitments or contingent liabilities relating to the Group's interest in the associate.

16. INTANGIBLE ASSETS

	Goodwill RM'000	Software RM'000	Rights to supply RM'000	Capitalised development cost of work-in-progress RM'000	Manu-facturing licences RM'000	Trade name RM'000	Intellectual property RM'000	Total RM'000
Group								
Cost								
At 1 January 2017	**153,176**	**4,289**	**234,658**	**13,073**	**18,667**	**4,429**	**-**	**428,292**
Acquisition of a subsidiary (Note 14)	**(656)**	**-**	**-**	**-**	**564**	**-**	**-**	**(92)**
Additions	**-**	**7,280**	**24,322**	**7,957**	**-**	**-**	**3,063**	**42,622**
Transfer from property, plant and equipment (Note 12)	**-**	**6,678**	**-**	**350**	**-**	**-**	**-**	**7,028**
Foreign exchange adjustments	**(6,525)**	**(516)**	**-**	**(2)**	**(1,946)**	**(466)**	**-**	**(9,455)**
Written off	**-**	**-**	**-**	**(783)**	**-**	**-**	**-**	**(783)**
At 31 December 2017	**145,995**	**17,731**	**258,980**	**20,595**	**17,285**	**3,963**	**3,063**	**467,612**
Less: Accumulated amortisation								
At 1 January 2017	**-**	**4,065**	**62,121**	**7**	**5,817**	**833**	**-**	**72,843**
Amortisation charged (Note 7(a))	**-**	**320**	**14,869**	**11**	**2,251**	**290**	**187**	**17,928**
Foreign exchange adjustments	**-**	**(512)**	**-**	**-**	**(606)**	**(88)**	**-**	**(1,206)**
At 31 December 2017	**-**	**3,873**	**76,990**	**18**	**7,462**	**1,035**	**187**	**89,565**
Less: Accumulated impairment								
At 1 January 2017/ 31 December 2017	**12,653**	**-**	**-**	**-**	**-**	**-**	**-**	**12,653**
Net book value								
At 31 December 2017	**133,342**	**13,858**	**181,990**	**20,577**	**9,823**	**2,928**	**2,876**	**365,394**

16. INTANGIBLE ASSETS (CONTINUED)

	Goodwill RM'000	Software RM'000	Rights to to supply RM'000	Capitalised development cost of work-in-progress RM'000	Manu-facturing licences RM'000	Trade name RM'000	Intellectual property RM'000	Total RM'000
Group								
Cost								
At 1 January 2016	145,671	3,965	177,157	6,101	17,292	4,136	-	354,322
Acquisition of a subsidiary (Note 14)	3,404	-	-	-	150	-	-	3,554
Additions	-	-	57,501	6,679	-	-	-	64,180
Transfer from property, plant and equipment (Note 12)	-	-	-	293	-	-	-	293
Foreign exchange adjustments	4,101	324	-	-	1,225	293	-	5,943
At 31 December 2016	153,176	4,289	234,658	13,073	18,667	4,429	-	428,292
Less: Accumulated amortisation								
At 1 January 2016	-	3,183	50,355	-	3,517	506	-	57,561
Amortisation charged (Note 7(a))	-	561	11,766	7	1,904	270	-	14,508
Foreign exchange adjustment	-	321	-	-	396	57	-	774
At 31 December 2016	-	4,065	62,121	7	5,817	833	-	72,843
Less: Accumulated impairment								
At 1 January 2016/ 31 December 2016	12,653	-	-	-	-	-	-	12,653
Net book value								
At 31 December 2016	140,523	224	172,537	13,066	12,850	3,596	-	342,796

16. INTANGIBLE ASSETS (CONTINUED)

Included in capitalised development cost of work-in-progress is development costs amounting to RMnil (2016: RM166,500) in respect of a product that has been commercialised during the financial year.

During the financial year, amortisation of RM14,880,000 (2016: RM11,773,000) is included in 'cost of sales' and RM3,048,000 (2016: RM2,735,000) in 'administrative expenses' in profit or loss.

The net cash outflows for the acquisition of intangible assets during the financial year are as follows:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Additions during the financial year	**42,622**	64,180
Less: Accrual of intangible assets	**(6,023)**	(12,565)
Add: Payment for intangible assets acquired in prior year	**12,565**	18,210
Net cash outflows on the acquisition of intangible assets	**49,164**	69,825

Impairment assessment for goodwill

The carrying amounts of goodwill allocated to the Group's cash-generating units ("CGUs") are as follows:

	2017	**2016**
	RM'000	**RM'000**
Malaysia		
Trading and distribution	**16,839**	16,839
Manufacturing	**60,953**	61,609
Indonesia		
Trading and distribution	**2,424**	2,709
Manufacturing	**53,126**	59,366
Total	**133,342**	140,523

No impairment loss was required for the carrying amounts of goodwill assessed as at 31 December 2017 as the recoverable amounts of the CGUs were in excess of their carrying amounts.

The recoverable amounts of the CGUs are determined based on value-in-use ("VIU") calculations. Cash flows are derived from financial budgets approved by the Directors covering a range of five-year period to ten-year period that reflects the product lifecycle. The projections reflect management's expectation of sales volume growth and product margins for the CGUs based on current assessment of market share and expectations of market growth.

16. INTANGIBLE ASSETS (CONTINUED)

The key assumptions used in VIU calculations are as follows:

	Malaysia		Indonesia	
	Trading and distribution	Manufacturing	Trading and distribution	Manufacturing
2017				
Sales volume growth rate by product	**1.7% to 5.5%**	**-2.2% to 54.3%**	**14.3% to 15.4%**	**10.0% to 47.2%**
Product margins	**7.7% to 8.2%**	**36.2% to 94.0%**	**8.0%**	**11.4% to 33.3%**
Discount rate	**9.08%**	**9.46%**	**13.19%**	**16.64%**
2016				
Sales volume growth rate by product	2.4% to 7.9%	-5.7% to 28.6%	15.1% to 15.7%	10.0% to 35.0%
Product margins	8.0% to 8.3%	49.9% to 71.3%	7.0%	21.6% to 34.1%
Discount rate	10.08%	10.50%	13.34%	15.76%

(i) Sales volume growth rate is the average growth rate by product over the forecast period based on past performance and management's expectation of market development.

(ii) Product margins are projected based on the industry trends, together with the trends observed by the Group.

(iii) Terminal growth rate of 0% (2016: 0%) that reflects long term growth forecast is applied in the VIU calculations.

(iv) Discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, the Directors concluded that no reasonable possible change in the base case assumptions would cause the carrying amounts of the CGUs to exceed their recoverable amounts.

16. INTANGIBLE ASSETS (CONTINUED)

Impairment assessment for capitalised development costs of work in-progress

(a) Capitalised development costs of work in-progress in relation to the small volume injectable production plant within the manufacturing segment

As at 31 December 2017, the capitalised development costs of work-in-progress in relation to the small volume injectable production plant RM7.6 million (2016: RM6.7 million) had been assessed together with the related property, plant and equipment as disclosed in Note 12 to the financial statements. The capitalised development costs of work-in-progress is subject to annual impairment testing.

(b) Capitalised development costs of work in-progress in relation to other cash-generating units within the manufacturing segment

As at 31 December 2017, the capitalised development costs of work in-progress of RM13.0 million (2016: RM6.3 million) together with related property, plant and equipment of RM163.3 million (2016: RM157.4 million) in relation to other cash-generating units was tested for impairment. The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a fifteen-year period that reflects the industry, product lifecycle from development, stability testing, product registration and commercialisation. The sales volume used in the value-in-use calculations is based on the respective product lifecycle and new products under development. The business plan reflects the cash-generating unit's expectation of plant capacity and utilisation, revenue growth, operating costs and margins based on past experience, current assessment of market share, expectations of market growth and industry growth.

The key assumptions used in the value-in-use calculations are set out below:

- Business analysis – The cash-generating unit makes assumptions about the demand for these new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation using a projected long-term average growth rate of 3% to 5% (2016: 3% to 5%).

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 9.46% (2016: 10.50%) has been applied. The discount rate reflects the prevailing market rate applicable to the industry adjusted for the risk of the assets.

No impairment was required as at 31 December 2017 as their recoverable amounts were in excess of their carrying amounts.

17. INVENTORIES

	Group 2017 RM'000	Group 2016 RM'000
Raw materials	**42,755**	42,805
Packaging materials	**23,242**	20,643
Work-in-progress	**6,841**	5,270
Finished goods	**412,155**	463,493
	484,993	532,211

18. TRADE RECEIVABLES

	Note	Group 2017 RM'000	Group 2016 RM'000
Current			
Trade receivables		**173,572**	169,204
Less: Provision for impairment of trade receivables		**(8,095)**	(7,936)
		165,477	161,268
Amounts due from customers on contracts	33	**4**	8
		165,481	161,276
Non-current			
Trade receivables		**10,817**	13,838
Less: Provision for impairment of trade receivables		**(1,345)**	(1,602)
		9,472	12,236

The credit terms of trade receivables range from 30 days to 120 days (2016: 30 days to 120 days).

18. TRADE RECEIVABLES (CONTINUED)

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

	Group 2017 RM'000	2016 RM'000
Neither past due nor impaired	**9,487**	12,836
Past due but not impaired:		
- Less than three months	**109,682**	130,146
- Between three to six months	**15,389**	8,878
- Between six months and one year	**30,177**	3,452
- Greater than one year	**742**	2,114
	155,990	144,590
Impaired	**18,912**	25,616
	184,389	183,042

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are substantially government-related entities and companies with no history of default with the Group.

Trade receivables that are past due but not impaired

As at 31 December 2017, trade receivables of RM156.0 million (2016: RM144.6 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

18. TRADE RECEIVABLES (CONTINUED)

Trade receivables that are impaired

The Group's trade receivables that are impaired at the reporting date are as follows:

	Group	
	2017 RM'000	2016 RM'000
Gross trade receivables	**18,912**	25,616
Less: Provision for impairment of trade receivables	**(9,440)**	(9,538)
	9,472	16,078

(a) Receivables amounting to RM8,096,000 (2016: RM7,753,000) relate to private customers, which are in unexpectedly difficult economic situation.

(b) Receivables amounting to RM10,816,000 (2016: RM17,863,000) are expected to be settled by instalment plan.

Movements of the provision for impairment of trade receivables during the financial year are as follows:

		Group	
	Note	2017 RM'000	2016 RM'000
At 1 January		**9,538**	10,423
Provision for impairment during the financial year	7(a)	**570**	760
Written off		**(430)**	(1,795)
Foreign exchange differences		**(238)**	150
At 31 December		**9,440**	9,538

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure of credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

19. OTHER RECEIVABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current				
Other receivables	**17,546**	17,318	**-**	8,648
Less: Provision for impairment of other receivables	**(108)**	(108)	**-**	-
	17,438	17,210	**-**	8,648
Advance to a corporate shareholder of a subsidiary	**-**	17,960	**-**	-
Prepayments	**11,635**	15,585	**160**	20
Deposits	**2,628**	3,376	**-**	-
GST/VAT recoverable	**49,521**	40,882	**-**	-
	81,222	95,013	**160**	8,668
Non-current				
Other receivables	**5,674**	-	**5,674**	-

In the previous financial year, the advance to a corporate shareholder of a subsidiary was unsecured, interest free and repayable on demand. The advance was fully repaid during the financial year.

19. OTHER RECEIVABLES (CONTINUED)

Ageing analysis of other receivables

The ageing analysis of other receivables is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Neither past due nor impaired	**10,538**	11,561	**-**	8,648
Past due but not impaired:				
- Less than three months	**1,572**	3,584	**-**	-
- Between three to six months	**5,247**	202	**-**	-
- Between six months and one year	**4**	901	**-**	-
- Greater than one year	**5,751**	962	**5,674**	-
	12,574	5,649	**5,674**	-
Impaired:				
- Greater than one year	**108**	108	**-**	-
	23,220	17,318	**5,674**	8,648

Other receivables that are neither past due nor impaired

Other receivables that are neither past due nor impaired are substantially companies with no history of default with the Group and the Company.

Other receivables that are past due but not impaired

As at 31 December 2017, other receivables of the Group amounting to RM12.6 million (2016: RM5.6 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovery.

20. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

	Company	
	2017 RM'000	**2016 RM'000**
Current		
Amounts due from subsidiaries	**59,067**	121,353
Less: Provision for impairment	**(24,135)**	(24,135)
Amounts due from subsidiaries - net	**34,932**	97,218
Non-current		
Amounts due from subsidiaries	**58,938**	175,648
Less: Provision for impairment	**(36,602)**	(36,602)
Amount due from subsidiaries - net	**22,336**	139,046

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

During the financial year, a total amount of RM225,900,000 was settled by way of capitalisation of amounts due from subsidiaries as disclosed in Note 14 to the financial statements.

During the financial year, amount due from subsidiaries of RM56,366,000 was settled by way of offsetting with the same amounts due to subsidiaries.

Movements of the provision for impairment of amounts due from subsidiaries during the financial year are as follows:

	Company	
	2017 RM'000	**2016 RM'000**
At 1 January	**60,737**	57,744
Provision for impairment during the financial year	**-**	2,993
At 31 December	**60,737**	60,737

(b) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free and are repayable on demand.

Dividend income from subsidiaries totalling RM104.0 million (2016: RM94.5 million) during the financial year was set off against amounts due to subsidiaries.

21. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest free and are repayable on demand.

22. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and bank balances	**27,893**	70,456	**177**	377

Cash and bank balances are deposits held at call with banks and earn no interest except for bank balances amounting to RM1.8 million (2016: RM1.0 million) that earn interest at 2.53% (2016: 2.60%) per annum.

23. TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2016: 30 days to 120 days).

24. OTHER PAYABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current				
Other payables	**457**	547	**457**	547
Current				
Other payables	**27,939**	54,431	**1,903**	3,071
Accruals	**16,184**	9,357	**1,072**	422
	44,123	63,788	**2,975**	3,493

Included in other payables of the Group and of the Company is the remaining balance of the purchase consideration of RM457,000 (2016: RM547,000) in respect of the acquisition of 70% equity interest in Bio-Collagen Technologies Sdn. Bhd.

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company arose from management fees and payments made on behalf. This amount is unsecured, interest free and repayable on demand.

26. DEFERRED INCOME

	Government grants RM'000	RoyalePharma voucher RM'000	Total RM'000
Group			
At 1 January 2017	**4,454**	**160**	**4,614**
Adjustment arising from finalisation of purchase price allocation on acquisition of a subsidiary (Note 14)	**(512)**	**-**	**(512)**
Additions during the financial year	**1,114**	**1,316**	**2,430**
Recognition of income during the financial year	**122**	**(1,219)**	**(1,097)**
At 31 December 2017	**5,178**	**257**	**5,435**
Analysed as:			
- Current	**314**	**257**	**571**
- Non-current	**4,864**	**-**	**4,864**
	5,178	**257**	**5,435**
At 1 January 2016	-	196	196
Acquisition of a subsidiary (Note 14)	512	-	512
Additions during the financial year	4,096	1,198	5,294
Recognition of income during the financial year	(154)	(1,234)	(1,388)
At 31 December 2016	4,454	160	4,614
Analysed as:			
- Current	264	160	424
- Non-current	4,190	-	4,190
	4,454	160	4,614

Government grants relate to monies received from certain government agencies to fund the purchase of certain intangible assets and property, plant and equipment of the Group.

27. BORROWINGS

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current				
Unsecured:				
- Bankers' acceptances	**181,499**	284,277	**-**	-
- Revolving credits	**159,000**	230,000	**59,000**	130,000
- Foreign time loan	**102,651**	101,921	**-**	-
	443,150	616,198	**59,000**	130,000
Secured:				
- Hire purchase	**766**	466	**-**	-
	443,916	616,664	**59,000**	130,000
Non-current				
Secured:				
- Hire purchase	**401**	248	**-**	-
	444,317	616,912	**59,000**	130,000
Total				
Bankers' acceptances	**181,499**	284,277	**-**	-
Revolving credits	**159,000**	230,000	**59,000**	130,000
Foreign time loan	**102,651**	101,921	**-**	-
Hire purchase	**1,167**	714	**-**	-
	444,317	616,912	**59,000**	130,000

Foreign time loan

The foreign time loan was drawn down to finance the working capital and procurement of vehicle and building. The foreign time loan is denominated in Indonesian Rupiah.

Hire purchase liabilities

	Group 2017 RM'000	Group 2016 RM'000
Minimum payments:		
- Payable within 1 year	**799**	499
- Payable between 1 and 5 years	**433**	261
	1,232	760
Less: Future finance charges	**(65)**	(46)
Present value of liabilities	**1,167**	714

27. BORROWINGS (CONTINUED)

Hire purchase liabilities (continued)

Hire purchase liabilities are effectively secured on the rights to the leased assets which reverts to the lessors in the event of default.

Borrowings' maturity and interest rate analysis

The net exposure of borrowings of the Group and of the Company to interest rate changes and the periods in which the borrowings mature are as follows:

	Effective interest rate at year end % per annum	Floating interest rate RM'000	Repayment terms <1 year RM'000	Repayment terms >1 year RM'000	Total carrying amount RM'000
Group					
At 31.12.2017					
Bankers' acceptances	**5.09**	**181,499**	**181,499**	**-**	**181,499**
Revolving credits	**4.45**	**159,000**	**159,000**	**-**	**159,000**
Foreign time loan	**7.96**	**102,651**	**102,651**	**-**	**102,651**
Hire purchase	**1.24**	**1,167**	**766**	**401**	**1,167**
		444,317	**443,916**	**401**	**444,317**
At 31.12.2016					
Bankers' acceptances	4.47	284,277	284,277	-	284,277
Revolving credits	4.50	230,000	230,000	-	230,000
Foreign time loan	11.46	101,921	101,921	-	101,921
Hire purchase	3.66	714	466	248	714
		616,912	616,664	248	616,912
Company					
At 31.12.2017					
Revolving credits	**4.75**	**59,000**	**59,000**	**-**	**59,000**
At 31.12.2016					
Revolving credits	4.75	130,000	130,000	-	130,000

27. BORROWINGS (CONTINUED)

Reconciliation of liabilities arising from financing activities

The following table illustrates the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes during the financial year:

	At 1 January 2017 RM'000	Net cash flows RM'000	Acquisition of PPE RM'000	Foreign exchange movement RM'000	At 31 December 2017 RM'000
Group					
Borrowings	**616,198**	(159,236)	-	(13,812)	**443,150**
Hire purchase liabilities	**714**	-	453	-	**1,167**
Total liabilities from financing activities	**616,912**	(159,236)	453	(13,812)	**444,317**

	At 1 January 2017 RM'000	Net cash flows RM'000	Non-cash Transactions RM'000	At 31 December 2017 RM'000
Company				
Borrowings	**130,000**	(71,000)	-	**59,000**
Amount due to subsidiaries	**209,019**	153,391	(168,100)	**194,310**
Total liabilities from financing activities	**330,019**	82,391	(168,100)	**253,310**

Fair value

The fair values of current and non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant.

Currency profile

The carrying amounts of the Group and of the Company's borrowings are denominated in the following currencies:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Ringgit Malaysia	**326,617**	500,349	**59,000**	130,000
Indonesian Rupiah	**117,700**	116,563	**-**	-
	444,317	616,912	**59,000**	130,000

27. BORROWINGS (CONTINUED)

Undrawn borrowing facilities

The Group and the Company have the following undrawn borrowing facilities:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Bankers' acceptances	**174,891**	74,038	**-**	-
Revolving credits	**241,000**	170,000	**141,000**	70,000
Foreign time loan	**56,779**	76,234	**-**	-
	472,670	320,272	**141,000**	70,000

28. SHARE CAPITAL

	Group and Company	
	2017 RM'000	**2016 RM'000**
Issued and fully paid ordinary shares:		
At 1 January	**129,688**	129,441
Adjustments arising from Companies Act 2016 coming into effect on 31 January 2017	**14,266**	-
Issuance during the financial year arising from:		
- Option Plan	**-**	100
- Long Term Incentive Plan	**2,259**	147
At 31 December	**146,213**	129,688

With the Companies Act 2016 ("New Act") came into effect on 31 January 2017, the credit standing in the share premium account of RM14,266,000 has been transferred to the share capital account. The New Act has abolished the concept of par or nominal value of shares and hence, the share premium of RM14,266,000 and authorised capital are abolished. In accordance with subsection 618(2) of the New Act, the amount standing to the credit of the Company's share premium become part of the Company's share capital upon commencement of the New Act. Pursuant to subsection 618(3) of the New Act, the Company may exercise its right to use the credit amounts being transferred from share premium within 24 months after the commencement of the New Act.

29. SHARE RESERVES

(a) Option Plan

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Option Plan	**8,503**	4,172	**8,503**	4,172
Long Term Incentive Plan	**2,024**	1,649	**173**	349
	10,527	5,821	**8,676**	4,521

An Option Plan was implemented on 13 May 2016 for the benefit of Directors and selected Senior Management Officers ("Eligible Employees") of the Group. The Option Plan shall be in force for a period of 5 years. The fair value of each share option on the grant date was RM0.71. The options are to be settled only by the issuance and allocation of new ordinary shares of the Company. There are no cash settlement alternatives.

The exercise price of the share options granted under the Option Plan is RM5.04 each. The options granted are divided into 5 equal tranches which vest on 16 May 2016, 16 May 2017, 16 May 2018, 16 May 2019 and 16 May 2020. The vesting condition is that the offeree must be an employee or Director, as the case may be, of the Company or its subsidiaries on the respective vesting and exercise dates. The options shall expire on 14 May 2021.

Movements of share options during the financial year

The following table illustrates the number of, and movements in, share options of the Company during the financial year:

	Number of share options	
	2017	**2016**
	'000	**'000**
At 1 January	**15,640**	-
Movements during the financial year:		
- Granted	**-**	15,840
- Exercised	**-**	(200)
At 31 December	**15,640**	15,640
Exercisable at 31 December	**6,236**	3,018

29. SHARE RESERVES (CONTINUED)

(a) Option Plan (continued)

The fair value of the Option granted during the financial year was accounted for in accordance with MFRS 2 Share-based Payments, were determined using the Binomial valuation model. The significant inputs in the model are as follows:

Fair value per option	RM0.71
Exercise price	RM5.04
Option life	5 years
Weighted average share price at grant date	RM5.60
Expected dividend yield	5.38%
Risk free rate	3.49%
Expected volatility	15.00%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of share prices over the last 3 (2016: 2) years.

The amounts recognised in the financial statements as disclosed in Notes 8 and 37(e) to the financial statements arose from the Option Plan granted to Directors and Eligible Employees.

(b) Long Term Incentive Plan

A Long Term Incentive Plan ("LTIP") was implemented on 13 May 2016 for the benefit of the Executive Director and Eligible Employees of the Group. The value of the allocation per year to the Executive Director and Eligible Employees under the LTIP shall not exceed 6% of the audited profit after tax of the Group for the preceding financial year.

Under the LTIP, the Executive Director and Eligible Employees are awarded with new ordinary share in the Company for nil consideration and the shares granted are vested to the Executive Director and Eligible Employees in tranches over a period of up to 3 years. There are no cash settlement alternatives.

As at 31 December 2017, particulars of the shares granted under the LTIP were as follows:

	At grant date		Number of ordinary shares				
Date of grant	**Fair value**	**Market price**	**At 1.1.2017**	**Granted**	**Vested**	**Lapsed**	**At 31.12.2017**
13 May 2016	RM5.36	RM5.60	581,600	-	(283,600)	(12,700)	285,300
18 May 2017	RM4.60	RM4.76	-	481,000	(160,300)	-	320,700

The fair value of the shares granted is determined using the Monte Carlo Simulation model, taking into account the terms and conditions under which the shares were granted. The significant inputs in the model are as follows:

Closing market price at grant date	RM4.76 and RM5.60
Expected volatility	17.49% to 26.23%
Expected dividend yield	3.94% to 4.20%
Risk free rate	2.92% to 3.34%

The expected volatility is based on 1 month, 1 year and 2 years average daily volatility.

30. RETAINED EARNINGS

Subject to the agreement by the Inland Revenue Board, the Company has tax exempt income to frank the payment of tax exempt dividends up to RM1,666,574 (2016: RM1,666,574).

31. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

	Note	Group 2017 RM'000	 2016 RM'000
Deferred tax assets:			
- Deferred tax assets to be recovered after more than 12 months		**32,720**	25,002
- Deferred tax assets to be recovered within 12 months		**2,717**	3,296
		35,437	28,298
Deferred tax liabilities:			
- Deferred tax liabilities to be recovered after more than 12 months		**(50,505)**	(45,771)
- Deferred tax liabilities to be recovered within 12 months		**(2,494)**	(2,334)
		(52,999)	(48,105)
Deferred tax liabilities (net)		**(17,562)**	(19,807)
At beginning of financial year		**(19,807)**	(9,158)
Acquisition of a subsidiary	14	**(172)**	(110)
(Charged)/credited to income statement:			
- property, plant and equipment		**(6,457)**	(732)
- provisions		**(7,028)**	995
- unutilised tax losses		**15,851**	1,763
- intangible assets		**(2,272)**	(12,959)
	9	**94**	(10,933)
Foreign exchange adjustments		**2,323**	394
At end of financial year		**(17,562)**	(19,807)

31. DEFERRED TAXATION (CONTINUED)

	Group 2017 RM'000	Group 2016 RM'000
Subject to income tax		
Deferred tax assets (before offsetting):		
- property, plant and equipment	**4,161**	5,222
- provisions	**11,422**	18,450
- unutilised tax losses	**29,521**	13,670
	45,104	37,342
Offsetting	**(9,667)**	(9,044)
Deferred tax assets (after offsetting)	**35,437**	28,298
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	**(18,985)**	(15,740)
- intangible assets	**(43,681)**	(41,409)
	(62,666)	(57,149)
Offsetting	**9,667**	9,044
Deferred tax liabilities (after offsetting)	**(52,999)**	(48,105)

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. The deductible temporary differences are available indefinitely for offset against future taxable profits of the Group and of the Company, subject to agreement with the Inland Revenue Board. These tax benefits will only be obtained if the Group and Company derive future assessable income of a nature and amount sufficient for the tax benefits to be utilised. Estimating the future taxable profits involve significant assumptions, especially in respect of sales volume growth rate and product margins and new outlets. These assumptions used are consistent with those prepared and used for impairment testing purposes. All available convincing evidences were considered, including approved budgets, business plan and analysis of historical operating results. Based on the available convincing evidences, management believes that the current non-time restricted temporary differences will be utilised and has recognised the deferred tax assets as at the end of the reporting date.

31. DEFERRED TAXATION (CONTINUED)

The amount of deductible temporary differences (all of which have no expiry) for which no deferred tax asset is recognised in the Group and in the Company's financial statements are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unutilised tax losses	**56,743**	87,804	**37,365**	35,034
Unabsorbed capital allowances	**3,606**	5,336	**-**	13
Deductible temporary differences	-	31	**-**	-
	60,349	93,171	**37,365**	35,047
Deferred tax assets not recognised at 24% (2016: 24%)	**14,484**	22,361	**8,968**	8,411

32. PROVISION FOR DEFINED BENEFIT PLAN

The subsidiaries in Indonesia operate an unfunded defined benefit scheme for its employees based on the provisions of Labour Law No. 13/2003. The latest actuarial valuations of the plans were signed on 4 January 2018 and 17 January 2018.

The amounts of unfunded defined benefit recognised in the statements of financial position of the Group are determined as follows:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Present value of unfunded defined benefit obligations	**8,977**	8,593
Analysed as:		
Non-current	**8,977**	8,593
Actuarial losses recognised in the statements of comprehensive income	**(224)**	(74)
Cumulative actuarial losses recognised in the statements of comprehensive income	**(647)**	(423)

32. PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The movements during the financial year in the amounts recognised in the statements of financial position of the Group are as follows:

	Group	
	2017	**2016**
	RM'000	**RM'000**
At 1 January	**8,593**	7,501
Charged to income statement (Note 8)	**1,693**	1,422
Contributions paid during the financial year	**(565)**	(1,062)
Recognition of actuarial loss	**224**	74
Foreign exchange adjustments	**(968)**	658
At 31 December	**8,977**	8,593

The amounts recognised in the income statements are as follows:

Current service cost	**1,052**	792
Interest cost	**641**	630
Total, included in employee benefit expenses (Note 8)	**1,693**	1,422

The principal actuarial assumptions used in respect of the Group's unfunded defined benefit plan are as follows:

	Group	
	2017	**2016**
	%	**%**
Discount rate	**7.3**	8.0 to 8.5
Expected rate of salary increase	**6.0**	6.0 to 7.0

32. PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions are as follows:

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
2017			
Discount rate	**1.0%**	**Decrease by 8.8%**	**Increase by 10.1%**
Expected rate of salary increase	**1.0%**	**Increase by 10.1%**	**Decrease by 8.9%**
2016			
Discount rate	1.0%	Decrease by 8.5%	Increase by 9.8%
Expected rate of salary increase	1.0%	Increase by 9.8%	Decrease by 8.7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous financial year.

33. AMOUNTS DUE FROM CUSTOMERS ON CONTRACTS

		Group	
	Note	**2017 RM'000**	**2016 RM'000**
Aggregate costs incurred to-date		**10,726**	5,133
Add: Attributable profits		**2,873**	658
		13,599	5,791
Less: Progress billings		**(13,595)**	(5,783)
Amounts due from customers on contracts	18	**4**	8

33. AMOUNTS DUE FROM CUSTOMERS ON CONTRACTS (CONTINUED)

	Note	Group 2017 RM'000	2016 RM'000
Contract revenue recognised during the financial year	4	**28,258**	63,248
Contract costs recognised as expense during the financial year	5	**23,943**	62,644

34. SEGMENTAL REPORTING

The Board of Directors is the Group's chief operating decision maker. Performance is measured based on identified reportable segments' profit before interest and tax as management believes that such information is most relevant in evaluating the results of the segments.

Effective 1 January 2017, the Group's segmental reporting discloses Indonesia Division, comprising all Indonesian subsidiaries, as a separate segment, whose operating results are now regularly reviewed by the Group for better allocation of resources and performance assessment. Other than the reclassification of all Indonesian subsidiaries that were previously reported under Logistics and Distribution and Manufacturing divisions respectively, the segmental information is consistent with those of the audited financial statements for the year ended 31 December 2016. Accordingly, the corresponding prior period amounts have been restated following the change in reporting segments.

For management purposes, the Group's business is organised into the following three reportable segments according to the internal reporting structure:

(a) Logistics and distribution - Distribution, trading and wholesaling of pharmaceutical and medical products as well as supply and installation of medical and hospital equipment in Malaysia.

(b) Manufacturing - Manufacturing of pharmaceutical products in Malaysia.

(c) Indonesia - Manufacturing and distribution of pharmaceutical and medical products in Indonesia have been aggregated into one reportable segment as it is reflective of the Group's business synergy in Indonesia, it is closely monitored as a potential growth region and is expected to materially contribute to the Group's revenue in the future.

Inter-segment revenues are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

34. SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments

	Logistics and distribution RM'000	Manufacturing RM'000	Indonesia RM'000	Elimination RM'000	Total RM'000
Group					
2017					
Revenue					
External sales	1,586,839	3,110	734,011	-	2,323,960
Inter-segment sales	-	274,137	-	(274,137)	-
Total revenue	1,586,839	277,247	734,011	(274,137)	2,323,960
Results					
Segment results	19,581	76,530	14,321	-	110,432
Finance costs	(16,877)	(2,461)	(10,312)	876	(28,774)
Interest income	755	810	38	(876)	727
	3,459	74,879	4,047	-	82,385
Unallocated corporate expenses					(9,321)
Profit before zakat and taxation					73,064
Zakat					(600)
Taxation	5,860	(14,872)	(2,648)	(5,717)	(17,377)
Net profit for the financial year					55,087

34. SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

	Logistics and distribution RM'000	Manufacturing RM'000	Indonesia RM'000	Elimination RM'000	Total RM'000
Group					
2017					
Other information					
Segment assets	**1,743,680**	**596,436**	**328,474**	**(1,060,840)**	**1,607,750**
Segment liabilities	**1,140,761**	**195,443**	**251,171**	**(526,752)**	**1,060,623**
Capital expenditure on property, plant and equipment and intangible assets	**39,889**	**34,233**	**4,341**	**-**	**78,463**
Depreciation of property, plant and equipment	**9,658**	**16,003**	**2,793**	**-**	**28,454**
Amortisation of prepaid lease payments	**51**	**-**	**89**	**-**	**140**
Amortisation of intangible assets	**15,056**	**361**	**2,511**	**-**	**17,928**
Impairment of slow moving and obsolete inventories	**3,423**	**1,518**	**314**	**-**	**5,255**
Share-based expenses	**6,069**	**876**	**-**	**-**	**6,945**
Non-cash expenses	**4,827**	**1,245**	**3,094**	**-**	**9,166**

34. SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

	Logistics and distribution RM'000	Manufacturing RM'000	Indonesia RM'000	Elimination RM'000	Total RM'000
Group					
2016 (Restated)					
Revenue					
External sales	1,551,444	3,152	634,426	-	2,189,022
Inter-segment sales	-	375,167	-	(375,167)	-
Total revenue	1,551,444	378,319	634,426	(375,167)	2,189,022
Results					
Segment results	11,599	93,305	8,681	-	113,585
Finance costs	(18,749)	(2,506)	(13,500)	1,052	(33,703)
Interest income	1,349	689	52	(1,052)	1,038
	(5,801)	91,488	(4,767)	-	80,920
Unallocated corporate expenses					(8,903)
Profit before zakat and taxation					72,017
Zakat					(250)
Taxation	(11,921)	(14,913)	(698)	1,624	(25,908)
Net profit for the financial year					45,859

34. SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

	Logistics and distribution RM'000	Manufacturing RM'000	Indonesia RM'000	Elimination RM'000	Total RM'000
Group					
2016 (Restated)					
Other information					
Segment assets	1,956,208	751,381	296,425	(1,320,904)	1,683,110
Segment liabilities	1,134,515	406,037	233,177	(650,026)	1,123,703
Capital expenditure on property, plant and equipment and intangible assets	66,007	37,962	5,437	-	109,406
Depreciation of property, plant and equipment	10,582	18,362	2,347	-	31,291
Amortisation of prepaid lease payments	51	-	82	-	133
Amortisation of intangible assets	11,766	29	2,713	-	14,508
Impairment of slow moving and obsolete inventories	4,648	1,806	328	-	6,782
Share-based expenses	6,811	764		-	7,575
Non-cash expenses	238	1,211	1,581	-	3,030

34. SEGMENTAL REPORTING (CONTINUED)

(b) Geographical information

	Revenue from external customers RM'000	Total non-current assets RM'000
Geographical markets		
2017		
Malaysia	**1,569,569**	**745,827**
Indonesia	**739,024**	**32,702**
Other countries	**15,367**	**-**
	2,323,960	**778,529**
2016		
Malaysia	1,530,263	745,084
Indonesia	647,220	20,793
Other countries	11,539	-
	2,189,022	765,877

Revenue is based on the country in which the customer is located.

Non-current assets information presented above consist of non-current assets other than financial instruments and deferred tax assets as presented in the consolidated statement of financial position.

Revenues of approximately RM1.5 billion (2016: RM1.5 billion) are mainly derived from a single external customer. These revenues are attributable to Logistics and Distribution segment. The single external customer with revenue equal or more than 10% of the Group's total revenue is disclosed in Note 37(f).

35. CAPITAL COMMITMENTS

Capital expenditure in respect of the following has not been provided for in the financial statements:

	Group	
	2017 **RM'000**	**2016** **RM'000**
Authorised and contracted for:		
- acquisition of property, plant and equipment	**12,145**	39,199
- acquisition of intangible assets	**4,131**	532
Authorised but not contracted for:		
- acquisition of property, plant and equipment	**10,842**	2,190

36. OPERATING LEASE OBLIGATION

Group as a lessee

The Group has several non-cancellable operating lease agreements for the use of equipment, land and buildings. These leases have an average lease period of between 2 years to 5 years with renewal option included in the contracts.

	Group	
	2017 **RM'000**	**2016** **RM'000**
Within 1 year	**5,822**	5,003
Later than 1 year but not later than 5 years	**4,857**	5,651
	10,679	10,654

37. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group and the Company, if the Group and the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making any financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to related party disclosures elsewhere in the financial statements, set out below are other related party transactions and balances.

		Group		Company	
		2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(a)	Immediate holding company				
	<u>Expenses</u>				
	• Management fees	**(289)**	(306)	(127)	(161)
	• Corporate and administrative support services	**(1,085)**	(1,140)	-	-

		Group	
		2017 RM'000	**2016 RM'000**
(b)	Subsidiaries of the immediate holding company		
	<u>Expenses</u>		
	• Travelling and accommodation	**(1,439)**	(1,883)
	• Provision of insurance	**(560)**	(668)
	• Freight forwarding and transportation services	**(5,005)**	(5,621)
	• Rental of premises	**(585)**	(4)

		Company	
		2017 RM'000	**2016 RM'000**
(c)	Subsidiaries		
	<u>Income</u>		
	• Interest income on advances to a subsidiary	**82**	-
	• Dividend income from subsidiaries	**104,000**	94,500
	• Management fees charged to subsidiaries	**15,394**	10,576
(d)	Payment of expenses made on behalf:		
	• by subsidiaries	**2,715**	19,871
	• for subsidiaries	**(19,127)**	(8,291)

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Remuneration of key management personnel

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries, bonuses and allowances	**7,336**	7,283	**7,299**	2,980
Social contribution costs	**6**	5	**6**	1
Defined contribution plan	**1,089**	1,074	**1,089**	385
Estimated monetary value of benefits by way of usage of Group assets	**290**	288	**290**	37
Share-based expenses	**5,985**	3,112	**5,985**	1,006
Fee	**826**	812	**532**	532
	15,532	12,574	**15,201**	4,941

Key management personnel comprise the Board of Directors and Senior Management personnel of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group entities directly or indirectly.

(f) Government-related entities

The Government of Malaysia and bodies controlled or jointly controlled by the Government of Malaysia are related parties of the Group by virtue of LTAT being a body controlled by the Government of Malaysia.

On 16 March 2011, Pharmaniaga Logistics Sdn. Bhd. ("PLSB"), a wholly-owned subsidiary has entered into a Concession Agreement with the Government of Malaysia represented by the Ministry of Health, Malaysia ("MOH") for a period of ten (10) years expiring on 30 November 2019, for the right and authority to purchase, store, supply and distribute the Approved Products (i.e. drugs and non-drugs approved by MOH) to the Public Sector Customers (i.e. government hospital, health office, health clinic, dental clinic, or any health institution or other similar facility within Malaysia which is operated and controlled by the MOH and as determined by the MOH from time to time) and also for the development of Pharmacy Information System and Clinic Pharmacy Systems in government hospitals and clinics.

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Government-related entities (continued)

In prior financial year, PLSB entered into Supply Agreements with three (3) teaching hospitals under Ministry of Higher Education ("MOHE"), namely Universiti Sains Malaysia, Universiti Kebangsaan Malaysia and University Malaya for the services of purchasing, storing, supplying and delivering to drugs and non-drugs. The Supply Agreement shall expire on 30 November 2019.

	Group	
	2017	**2016**
	RM'000	**RM'000**
Sale of goods to MOH/MOHE	**1,481,726**	1,450,126
Amount due from MOH	**3,198**	3,257
Amount due from MOHE	**4,481**	7,756

(g) Significant outstanding balances

Significant outstanding balances arising from the above transactions are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amounts due from				
Subsidiaries	**-**	-	**57,268**	236,264
Amounts due to				
Immediate holding company	**725**	472	**101**	74
Subsidiaries	**-**	-	**194,310**	209,019
Related companies*	**2,670**	853	**-**	-

* The related companies are subsidiaries of the immediate holding company.

38. SIGNIFICANT EVENT

On 13 January 2017, the Group had via its wholly owned subsidiary, Pharmaniaga Pristine Sdn. Bhd. ("PPSB"), subscribed to the total issued and paid-up capital of Paradigm Industry Sdn. Bhd. ("PISB") of RM2.00. On 29 March 2017, PISB increased its paid-up capital to RM100,000 through the issuance of 99,998 ordinary shares by way of capitalisation of amount owing to PPSB (80%) and Sweetleaves Health Sdn. Bhd. (20%).

39. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group has a written risk management framework which sets out their overall business strategies, their tolerance to risk and has established processes to monitor and control the risks. Such framework is approved by the Board of Directors and quarterly reviews are undertaken as required.

Financial risk factors

(a) Market risk

(i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and IDR. Foreign currency exchange risk arises from current commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group enters into contracts in Ringgit Malaysia denomination, where possible. Foreign currency exchange risk arises when current commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2017, if the functional currency had weakened/strengthened by 5% (2016: 5%) against US Dollar with all other variables held constant, post tax profit for the financial year would have been lower/ higher by RM405,000 (2016: higher/ lower by RM257,000) mainly as a result of foreign exchange gains/losses on translation of US Dollar - denominated trade payables, other payables, trade receivables, other receivables and deposits, cash and bank balances.

As at 31 December 2017, if the functional currency had weakened/strengthened by 5% (2016: 5%) against Euro with all other variables held constant, post tax profit for the financial year would have been lower/ higher by RM13,000 (2016: lower/ higher by RM142,000) mainly as a result of foreign exchange losses/ gains on translation of Euro - denominated trade and other payables.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2017, if the functional currency had weakened/strengthened by 5% (2016: 5%) against the IDR with all other variables held constant, the impact on equity would have been approximately higher/lower by RM2,937,000 (2016: RM2,404,000) on translation upon consolidation. No impact to income statement as the financial assets and liabilities denominated in IDR are in respect of foreign subsidiaries where trade is conducted in the entity's functional currency.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

The financial assets and financial liabilities of the Group that are not denominated in its functional currency are set out below:

	31.12.2017	
	US Dollar RM'000	**Euro RM'000**
Trade receivables	**3,269**	**-**
Other receivables	**26**	**-**
Deposits, cash and bank balances	**5**	**-**
Trade payables	**(13,616)**	**-**
Other payables	**(350)**	**(331)**
	(10,666)	**(331)**

	31.12.2016	
	US Dollar RM'000	**Euro RM'000**
Trade receivables	3,173	-
Other receivables	14,742	-
Deposits, cash and bank balances	43	-
Trade payables	(11,151)	(3,414)
Other payables	(45)	(330)
	6,762	(3,744)

(ii) Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest bearing assets are primarily short term bank deposits with financial institutions. The interest rates on these deposits are monitored closely to ensure they are maintained at favourable rates. The Group considers the risk of significant changes to interest rates on deposits to be unlikely.

Interest rate exposure arises from the Group's borrowings. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow interest rate risk (continued)

As at 31 December 2017, if interest rates on Ringgit Malaysia - denominated borrowings of the Group and the Company had been 50 (2016: 50) basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group and of the Company would have been RM1,567,000 (2016: RM1,974,000) and RM234,000 (2016: RM340,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

As at 31 December 2017, if interest rates on Indonesian Rupiah - denominated borrowings of the Group had been 50 (2016: 50) basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group would have been RM444,000 (2016: RM383,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

(b) Credit risk

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from credit exposures to customers, including outstanding receivables, as well as deposits, cash and bank balances.

For trade and other receivables, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. See Notes 18 and 19 for further disclosure on credit risk.

Credit quality of financial assets

Information regarding credit quality of trade and other receivables is disclosed in Notes 18 and 19 respectively. Deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's and the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Group's and the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

Whilst the Group's and the Company's current liabilities exceeded their current assets by RM214,287,000 (2016: RM185,321,000) and RM221,117,000 (2016: RM236,323,000) respectively, the Directors are of the view that the Group and the Company will have sufficient cash flows for the next 12 months from the reporting date to meet their cash flows requirements based on the undrawn committed borrowing facilities available to the Group and the Company as disclosed in Note 27 to the financial statements. In addition, should the need arise, the profitable subsidiaries can distribute dividends to the Company to enable the Company to meet its immediate commitments as and when they fall due.

The table below analyses the Group and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and will not reconcile to the amounts disclosed on the statements of financial position.

	Less than 3 months RM'000	**Between 3 months and 1 year RM'000**	**Between 1 and 2 years RM'000**	**More than 2 years RM'000**
Group				
At 31 December 2017				
Financial liabilities				
Borrowings	**440,219**	**10,044**	**433**	**-**
Trade payables	**499,426**	**-**	**-**	**-**
Other payables	**44,123**	**-**	**457**	**-**
Amount due to immediate holding company	**725**	**-**	**-**	**-**
Amounts due to related companies	**2,670**	**-**	**-**	**-**
At 31 December 2016				
Financial liabilities				
Borrowings	547,756	78,076	261	-
Trade payables	378,116	-	-	-
Other payables	63,788	-	547	-
Amount due to immediate holding company	472	-	-	-
Amounts due to related companies	853	-	-	-

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 3 months RM'000	Between 3 months and 1 year RM'000	Between 1 and 2 years RM'000	More than 2 years RM'000
Company				
At 31 December 2017				
Financial liabilities				
Borrowings	**59,248**	**-**	**-**	**-**
Other payables	**2,975**	**-**	**457**	**-**
Amount due to immediate holding company	**101**	**-**	**-**	**-**
Amounts due to subsidiaries	**194,310**	**-**	**-**	**-**
At 31 December 2016				
Financial liabilities				
Borrowings	130,525	-	-	-
Other payables	3,493	-	547	-
Amount due to immediate holding company	74	-	-	-
Amounts due to subsidiaries	209,019	-	-	-

(d) Financial instruments by category

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financial assets				
Loans and receivables				
Trade receivables	**174,953**	173,512	**-**	-
Other receivables (net of GST/ VAT receivables and prepayments)	**25,740**	38,546	**5,674**	8,648
Deposits, cash and bank balances	**27,893**	70,456	**177**	377
Amounts due from subsidiaries	**-**	-	**57,268**	236,264

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(d) Financial instruments by category (continued)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financial liabilities				
Liabilities at amortised cost				
Borrowings	**444,317**	616,912	**59,000**	130,000
Trade payables	**499,426**	378,116	**-**	-
Other payables	**44,580**	64,335	**3,432**	4,040
Amount due to immediate holding company	**725**	472	**101**	74
Amounts due to related companies	**2,670**	853	**-**	-
Amounts due to subsidiaries	**-**	-	**194,310**	209,019

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total loans and borrowings divided by total capital.

The gearing ratios are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total borrowings (Note 27)	**444,317**	616,912	**59,000**	130,000
Total equity attributable to equity holders of the Company	**528,046**	530,631	**396,222**	339,927
Gearing ratio (times)	**0.8**	1.2	**0.1**	0.4

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management (continued)

Under the terms of its borrowing facilities undertaken by the Group and the Company during the financial year, the Group and the Company are required to comply with the following financial covenants:

- The ratio of debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") is to be no more than 3 to 1;
- The ratio of EBITDA to interest expense is to be no less than 5 to 1;
- Current ratio of a minimum of 1.1;
- The interest-bearing debt over equity ratio of not more than 3; and
- The ratio of Debt Service Coverage is to be a minimum of 1.25.

Included within bankers' acceptances (unsecured) of the Group as disclosed in Note 27 to the financial statements is RM15 million in respect of borrowings drawdown by PT Errita Pharma. The borrowings subject the subsidiary to financial covenants such as current ratio, interest-bearing debt over equity ratio and Debt Service Coverage ratio which require the subsidiary to have positive EBITDA. However, as at 31 December 2017, the subsidiary was in a negative EBITDA position. The subsidiary has since obtained the waiver from the bank for compliance with the debt covenants for the financial year ended 31 December 2017.

Other than the above, there is no non-compliance of financial covenants for borrowings of the Group and of the Company during the financial year.

Fair value estimation

The carrying values of financial assets and financial liabilities of the Group and of the Company at the reporting date approximated their fair values.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 1 March 2018.

Other Compliance Information

RECURRENT RELATED PARTY TRANSACTIONS

At the 19th Annual General Meeting held on 6 April 2017, the Company obtained Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature. The information disclosed in accordance with Section 3.1.5 of Practice Note 12 of Bursa Malaysia Securities Berhad Listing Requirements are as follows:

Related party	Nature of transactions	Actual transactions RM'000
Boustead Holdings Berhad	Provision of corporate and administrative support services, internal audit function and training	1,374
Boustead Travel Services Sdn. Bhd.	Provision of travelling services	1,439

Tan Sri Dato' Seri Lodin Wok Kamaruddin, Dato' Farshila Emran, Mohd Suffian Haji Haron and Daniel Ebinesan are deemed interested Directors/connected persons.

AUDIT AND NON-AUDIT FEES

The audit and non-audit fees below are also disclosed in the Audited Financial Statements set out under Note 7 to the Financial Statements on page 156 of this Annual Report.

Audit Fees	Company RM'000	Group RM'000
Audit fees paid to the External Auditors for the financial year ended 31 December 2017	181	781

Non-Audit Fees	Company RM'000	Group RM'000
Non-audit fees paid to the External Auditors for the financial year ended 31 December 2017	210	274

MATERIAL CONTRACT

During the financial year, there was no material contract entered into by the Company and its subsidiaries involving Directors' and/or substantial shareholders' interests.

UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

There were no corporate proposals during the financial year ended 31 December 2017.

CONTRACTS RELATING TO LOANS

There were no material contracts relating to loans entered into by the Company involving Directors and/or substantial shareholders.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

Pharmaniaga did not issue any Options, Warrants and Convertible Securities during the financial year ended 31 December 2017 except for the following:

Share Scheme

The Share Scheme was approved by Company's shareholders at the Extraordinary General Meeting held on 29 March 2016 and subsequently implemented on 13 May 2016. The Share Scheme comprises the Option Plan and Long Term Incentive Plan ("LTIP").

Option Plan

Option Price of RM5.04	Grand Total of Option	Option to Directors
Granted	15,840,000	13,800,000
Exercised	(200,000)	(200,000)
Outstanding	15,640,000	13,600,000

LTIP

Ordinary Share	Grand Total of Shares	Shares to Executive Director
Granted	1,375,000	202,000
Vested	(738,300)	(109,300)
Lapsed	(30,700)	-

During the financial year, all shares under the LTIP were granted to selected Senior Management Officers.

Non-Executive Directors were granted options under the Option Plan only.

Non-Executive Directors	Amount of options granted	Amount of option exercised
Tan Sri Dato' Seri Lodin Wok Kamaruddin	3,800,000	-
Mohd Suffian Haji Haron (Senior Independent)	2,000,000	-
Daniel Ebinesan	2,000,000	200,000
Izzat Othman	2,000,000	-
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	2,000,000	-

Analysis of Shareholdings

As at 15 February 2018

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of holders	%	No. of shares	%
Less Than 100	727	13.18	14,900	0.00
100 to 1,000	2,261	40.97	1,066,117	0.41
1,001 to 10,000	2,070	37.51	7,115,243	2.74
10,001 to 100,000	398	7.21	9,660,327	3.72
100,001 to less than 5% of issued shares	60	1.09	68,274,746	26.28
5% and above of issued shares	2	0.04	173,689,699	66.85
TOTAL	5,518	100.00	259,821,032	100.00

30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
1	Boustead Holding Berhad *Account Non-Trading*	146,110,415	56.24
2	Lembaga Tabung Angkatan Tentera	27,579,284	10.61
3	Lembaga Tabung Haji	11,586,700	4.46
4	Valuecap Sdn Bhd	9,340,500	3.59
5	Cimsec Nominees (Tempatan) Sdn Bhd *CIMB Bank for Che Lodin Bin Wok Kamaruddin (PBCL-0G0052)*	6,334,883	2.44
6	Che Lodin Bin Wok Kamaruddin	6,165,265	2.37
7	Citigroup Nominees (Tempatan) Sdn Bhd *Employees Provident Fund Board*	5,047,600	1.94
8	Kumpulan Wang Persaraan (Diperbadankan)	3,707,600	1.43
9	CIMB Group Nominees (Tempatan) Sdn Bhd *Yayasan Hasanah (AUR-VCAM)*	3,010,200	1.16
10	Citigroup Nominees (Tempatan) Sdn Bhd *Kumpulan Wang Persaraan (Diperbadankan) (VCAM EQUITY FD)*	2,500,000	0.96
11	Dasar Technologies Sdn Bhd	2,000,000	0.77
12	Maybank Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Au Kwan Seng*	1,805,800	0.70
13	Amanahraya Trustees Berhad *Public Islamic Treasures Growth Fund*	1,774,700	0.68

Analysis of Shareholdings

30 LARGEST SHAREHOLDERS (as per the Register of Depositors) (continued)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
14	Chinchoo Investment Sdn Berhad	913,149	0.35
15	Yong Siew Yoon	811,364	0.31
16	Gan Teng Siew Realty Sdn Berhad	657,564	0.25
17	Citigroup Nominees (Asing) Sdn Bhd *CBNY for DFA Emerging Markets Small Cap Series*	649,060	0.25
18	Affin Hwang Nominees (Tempatan) Sdn Bhd *Yayasan Warisan Perajurit*	596,200	0.23
19	Public Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Au Kwan Seng (E-KLC)*	569,800	0.22
20	Citigroup Nominees (Asing) Sdn Bhd *CBNY for Emerging Market Core Equity Portfolio* *DFA Investment Dimensions Group Inc*	541,580	0.21
21	Key Development Sdn Berhad	531,759	0.20
22	UOB Kay Hian Nominees (Asing) Sdn Bhd *Exempt an for UOB Kay Hian Pte Ltd (A/C Clients)*	527,697	0.20
23	Amanahraya Trustees Berhad *Public Islamic Opportunities Fund*	470,100	0.18
24	Citigroup Nominees (Tempatan) Sdn Bhd *Employees Provident Fund Board (Asianislamic)*	465,500	0.18
25	Gemas Bahru Estates Sdn Bhd	432,588	0.17
26	CIMB Group Nominees (Tempatan) Sdn Bhd *Aiiman Asset Management Sdn Bhd for Lembaga Tabung Haji*	415,000	0.16
27	Bidor Tahan Estates Sdn Bhd	400,600	0.15
28	Maybank nominees (Tempatan) Sdn Bhd Etiqa Family Takaful Berhad (Family)	367,000	0.14
29	Mikdavid Sdn Bhd	366,058	0.14
30	Wong Wai Kuan	346,100	0.13
	TOTAL	**236,024,066**	**90.82**

Analysis of Shareholdings

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

		No. of Shares Held			
No	**Name of Substantial Shareholders**	**Direct**	**%**	**Indirect**	**%**
1	Boustead Holdings Berhad *Account Non-Trading*	146,110,415	56.24	-	-
2	Lembaga Tabung Angkatan Tentera	27,579,284	10.61	146,110,415	56.24

Directors' Shareholding (as per register of Directors' Shareholding)

		No. of Shares Held in Pharmaniaga Berhad			
No	**Name of Directors**	**Direct**	**%**	**Indirect**	**%**
1	Che Lodin Bin Wok Kamaruddin	6,165,265	2.37	-	-
2	Cimsec nominees (Tempatan) Sdn Bhd *CIMB Bank for Che Lodin Bin Wok Kamaruddin (PBCL-0G0052)*	6,334,883	2.44	-	-
3	Cimsec Nominees (Tempatan) Sdn Bhd *CIMB Bank for Ebinesan @ Daniel A/L Gnanakkan (PBCL-0G0268)*	300,000	0.12	-	-
4	Cimsec Nominees (Tempatan) Sdn Bhd *(PB-PTS0017333)*	300,000	0.12	-	-
5	Maybank Securities Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Farshila Binti Emran (Margin)*	246,300	0.09	-	-
6	Mohd Suffian Bin Haron	60,000	0.02	-	-

Group Property List

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
1	Lot PT 46016, HS (D) 87359 Mukim of Kapar, Klang, Selangor Darul Ehsan **Industrial Premises:** No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	A parcel of industrial land with a detached industrial building comprising a 3-storey office annexed at the front, a single storey office building, automated storage retrieval system (ASRS) warehouse, a surau, a guard house and an inflammable store	23,594	Freehold	23	24,868	14 March 2005
2	Lot PT 46016, HS (D) 87359 Mukim of Kapar, Klang, Selangor Darul Ehsan **Industrial Premises:** No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	A parcel of industrial land with a single storey laboratory building, chiller and a guard house	17,414	Freehold	20	14,039	14 March 2005
3	HS (D) 145264, PT 70920, Mukim of Kapar, Klang, Selangor Darul Ehsan **Shoplot:** No. 25, Jalan Keluli 7/109, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	3-storey shoplot	277	Freehold	3	3,356	3 October 2014

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
4	HS (D) 145263, PT 70919, Mukim of Kapar, Klang, Selangor Darul Ehsan **Shoplot:** No. 23, Jalan Keluli 7/109, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	3-storey shoplot	183	Freehold	3	1,945	3 October 2014
5	HS (D) 22385 PT49, Seksyen 15, Bandar Shah Alam, Daerah Petaling, Selangor Darul Ehsan **Industrial Premises:** No. 11, Jalan Ragum 15/17, Seksyen 15, 40200 Shah Alam, Selangor Darul Ehsan	A parcel of Industrial land presently built upon with a single storey warehouse with 2 storey office annexed and a guard house	11,762	Leasehold of 99 years expiring on 12 January 2086	2	21,801	9 September 2015
6	Geran 44309 of Lot 7, Mukim Pekan Puchong Perdana, Daerah Petaling, Selangor Darul Ehsan **Factory:** No 7, Jalan PPU 3, Taman Perindustrian Puchong Utama, 47100 Puchong, Selangor Darul Ehsan	An industrial land with a main 2-storey detached factory industrial building with a 3-storey office/ laboratory section at the back and a single storey warehouse section at the front, a cafeteria/surau building, a fire pump room/cold water pump room, an inflammable store/refuse chamber, chiller, boiler house, waste water treatment and a guard house	28,041	Freehold	17	55,267	21 August 2001

Group Property List

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
7	Lot PT 1157, HS (M) 9726, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan **Factory:** No. 11A, Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	A parcel of industrial land with 3 industrial buildings, an office/ workshop, a canteen, chiller, boiler house, waste water treatment, a TNB sub-station and a guard house	12,141	Leasehold of 99 years, expiring on 29 September 2086	32	13,369	28 August 1991
8	Lot 1024, Block 7, Muara Tebas Land, District of Kuching, Sarawak **Industrial Premises:** Lot 1024, Block 7, Muara Tebas Land District, Demak Laut Industrial Park, 93050 Kuching, Sarawak	A parcel of industrial land with a 2-storey office, a warehouse and a guard house	6,560	Leasehold of 60 years, expiring on 15 August 2056	21	6,125	3 November 2004
9	Country Lease 015377554, Kota Kinabalu, Sabah **Industrial Premises:** Lorong Kurma, Kolombong Industrial Centre, KM 9, Off Jalan Tuaran 88450 Kolombong Kota Kinabalu, Sabah	A parcel of industrial land with a 2-storey office, warehouse and a guard house	7,851	Leasehold of 66 years, expiring on 21 December 2033	15	3,188	21 January 2002

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
10	HS (M) 1479, HS (M) 1480 and HS (M) 1481, Lot No. 3806, 3807 and 3808, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang **Industrial Premises:** No. 1,3 & 5, Lorong IKS Juru 8, Taman Perindustrian Ringan Juru, 14100 Simpang Ampat, Seberang Perai, Pulau Pinang	3 contiguous 11/2 semi-detached warehouses with office	2,175	Freehold	20	985	11 November 1998
11	Flat No. 401-405, 3rd Floor, Block 5, Jalan 1/9, Section 1, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	5 units of 2–bedroom flat for staff lodging	296	Leasehold of 99 years, expiring on 31 March 2095	24	*0	10 June 1993 and 19 July 1995
12	Flat No. 501, 503, 505 and 507, 4th Floor, Block 10, Jalan 6C/11, Section 16, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	4 units of 2-bedroom flat for staff lodging	262	Leasehold of 99 years, expiring on 31 March 2095	24	*0	11 June 1993
13	Lot PT 10908, HS (M) 9124, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan **House:** No. 5, Jalan 4/4E, Section 4 43650 Bandar Baru Bangi, Selangor Darul Ehsan	2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	31	*0	4 September 1987

Group Property List

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
14	Lot PR 10911, HS (M) 9127, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan **House:** No 11, Jalan 4/4E, Section 4, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	31	*0	4 September 1987
15	Lot 0111111, No. HM 144/1977 & Lot PT 0000102, No. HM 237/1984, Mukim Sungai Pasir, Sungai Petani, Kedah Darul Aman **Factory:** Lot 24 & 25, Jalan Perusahaan 8, Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah Darul Aman	A parcel of industrial land with a 2-storey office, guard house, manufacturing block, warehouse block, flammable store, chiller, boiler house, purified water system and waste water treatment	40,469	Leasehold of 99 years, expiring on 1 January 2083	40	14,827	6 March 2005
16	Lot 276, 277 & 278, District of Mukim of Bandar Seri Iskandar, Perak Tengah, Perak Darul Ridzuan Factory: Lot 120, Taman Farmaseutikal, 32610 Bandar Seri Iskandar, Perak Darul Ridzuan	A parcel of building land built upon a defected industrial building with a 2–storey office building, prayer room, canteen, warehouse, penicillin and non penicillin production plant buildings, laboratory building, chiller, boiler house, TNB sub-station, waste water treatment and a guard house	60,737	Leasehold of 99 years, expiring on 13 March 2100	21	27,741	1 June 2009
17	Blok D, 20 & 21, Ruko Grand Mal, Bekasi, Jakarta, Indonesia	Shop lots	453	Freehold 23 years to 2 June 2036	15	76	13 October 2003

No.	Location and address of property	Brief description and existing use	Area Building / Land (sq meters)	Tenure and Year of Expiry	Age of Building / Land (Years)	Net Book Value as at 31/12/2017 (RM'000)	Date of Revaluation / Acquisition
18	Blok D 19, Ruko Grand Mal, Bekasi, Jakarta, Indonesia	Shop lots	204	Freehold	0	511	14 November 2017
19	Jalan Depsos, 67 – 70 Bintaro, Jaksel, Jakarta, Indonesia	Office and warehouse	1,860	Freehold 30 years to 7 July 2028	18	854	14 January 1999 Revaluation 2001
20	Jalan Kalibokor Selatan, 152 Surabaya, Indonesia	Office and warehouse	1,133	Leasehold 5 years to 24 July 2021	36	35	4 November 1971 Revaluation 2001
21	Jalan Hayam Wuruk I No.45, Bandar Lampung, Indonesia	Office and warehouse	1,072	Freehold 20 years to 17 November 2036	1	1,042	10 November 2016
22	Jalan Peundeuy, RT/RW 04/07, Desa Bojongsalam Kecamatan Rancaekek, Kabupaten Bandung, Indonesia	An industrial land with office, warehouse, guard house and electricity sub-station	16,492	Leasehold of 30 years to 01 October 2043	33	8,237	8 May 1994

* Below RM500

Group Corporate Directory

List of Companies	Address
Pharmaniaga Berhad **Pharmaniaga Logistics Sdn Bhd** **Pharmaniaga Marketing Sdn Bhd** **Pharmaniaga Research Centre Sdn Bhd** **Pharmaniaga Pristine Sdn Bhd** **Pharmaniaga Biomedical Sdn Bhd** **Pharmaniaga International Corporation Sdn Bhd**	No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan Tel : +603-3342 9999 Fax : +603-3341 7777 **Mailing Address:** P.O. Box 2030, Pusat Bisnes Bukit Raja, 40800 Shah Alam, Selangor Darul Ehsan
Pharmaniaga Manufacturing Berhad	No. 11A, Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan Tel : +603-8925 7880 Fax : +603-8925 6177
Idaman Pharma Manufacturing Sdn Bhd (Sungai Petani Branch)	Lot No. 24 & 25, Jalan Perusahaan 8, Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah Darul Aman Tel : +604-4213 011 Fax : +604-4215 731
Idaman Pharma Manufacturing Sdn Bhd (Seri Iskandar Branch)	Lot 120, Taman Farmaseutikal, 32610 Bandar Seri Iskandar, Perak Darul Ridzuan Tel : +605-371 2020 Fax : +605-371 1940/1950
Pharmaniaga LifeScience Sdn Bhd	Lot 7, Jalan PPU 3, Taman Perindustrian Puchong Utama, 47100 Puchong, Selangor Darul Ehsan Tel : +603-8061 2006 Fax : +603-8061 2875
Bio-Collagen Technologies Sdn Bhd	No. 11, Jalan Perindustrian Balakong Jaya 2/3, Taman Perindustrian Balakong Jaya 2, 43300 Seri Kembangan, Selangor Darul Ehsan Tel : +603-8959 9710 Fax : +603-8945 9910

List of Companies	Address
Pharmaniaga Logistics Sdn Bhd (Juru Branch)	1, 3 & 5, Lorong IKS Juru 8, Taman Perindustrian Ringan Juru, 14100 Simpang Ampat, Seberang Prai, Pulau Pinang Tel : +604-508 3330/1/2 Fax : +604-508 3111
Pharmaniaga Logistics Sdn Bhd (Kuching Branch)	Lot 1024, Block 7, Muara Tebas Land District, Demak Laut Industrial Park, 93050 Kuching, Sarawak Tel : +6082-432 800 Fax : +6082-432 806
Pharmaniaga Logistics Sdn Bhd (Kota Kinabalu Branch)	Lorong Kurma, Kolombong Industrial Centre, KM 9 Off Jalan Tuaran, 88450 Kolombong, Kota Kinabalu, Sabah Tel : +6088-439 188 Fax : +6088-437 288
Paradigm Industry Sdn Bhd	No. 36-G Jalan Klang Sentral 2/KU5, Klang Sentral, 41050 Klang, Selangor Tel : +603-3358 6760 Fax : +603-3362 6761
PT Millennium Pharmacon International Tbk (HQ)	Panin Bank Centre, 9th Floor, Jl. Jenderal Sudirman, Senayan, Jakarta, 10270 Indonesia Tel : +62-21 727 88906/7 Fax : +62-21 722 8090
PT Errita Pharma (Bandung)	Jalan Peundeuy, RT/RW 04/07, Desa Bojongsalam, Kecamatan Rancaekek, Kabupaten Bandung, Indonesia Tel : +62-22 794 9062/4 Fax : +62-22 794 9063
PT Mega Pharmaniaga *(Dormant)* (Jakarta)	Komplek Perkantoran Graha Elok Mas, Blok HH, No. 83, Jl. Panjang, Kebon Jeruk, Jakarta, 11510 Indonesia Tel : +62-21 295 08987 Fax : +62-21 295 08988

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twentieth Annual General Meeting of Pharmaniaga Berhad will be held at Mutiara Ballroom, Ground Floor, Royale Chulan Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 11 April 2018 at 9.00 a.m. for the purpose of transacting the following business:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors. **(Please refer to Note 1)**

2. To re-elect the following Directors who retire as Directors of the Company by rotation in accordance with Article 88 of the Company's Constitution, and being eligible, offer themselves for re-election.

   i) Dato' Farshila Emran **Resolution 1**

   ii) Encik Izzat Othman **Resolution 2**

3. To approve payment of Directors' fees of RM676,000 for Pharmaniaga Berhad and its subsidiaries in respect of the financial year ended 31 December 2017. **Resolution 3**

4. To approve Directors' meeting allowances of RM49,500 for Pharmaniaga Berhad and its subsidiaries for the financial year ended 31 December 2017. **Resolution 4**

5. To approve payment of Directors' fees and meeting allowances for Pharmaniaga Berhad and its subsidiaries from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company. **Resolution 5**

6. To re-appoint Messrs. PricewaterhouseCoopers PLT as auditors of the Company and to hold office until the conclusion of the next Annual General Meeting, at a remuneration to be determined by the Directors. **Resolution 6**

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

7. **ORDINARY RESOLUTION**
AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016 **Resolution 7**

"THAT pursuant to Sections 75 and 76 of the Companies Act 2016 and subject to the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the capital of the Company from time to time and upon such terms and conditions and for such purposes as the Directors, may in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are hereby also empowered to obtain approval from the Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

8. **ORDINARY RESOLUTION**
PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS **Resolution 8**

"THAT, subject always to the Companies Act 2016 ("Act"), the Company's Constitution and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of the mandate granted by the shareholders of the Company on 6 April 2017, authorising the Company and/or its subsidiaries to enter into recurrent transactions of a revenue or trading nature with the Related Parties as specified in Section 2.2 of the Circular to Shareholders dated 13 March 2018, provided that the transactions are:

i) necessary for the day to day operations;

ii) carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and

iii) are not to the detriment of the minority shareholders.

AND THAT such approval shall continue to be in force until:

i) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the said AGM, such authority is renewed;

ii) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

iii) revoked or varied by a resolution passed by the Shareholders in a General Meeting;

whichever is the earlier.

AND FURTHER THAT the Directors of the Company be authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this Shareholders' Mandate."

9. To transact any other business of the Company of which due notice shall have been received.

By Order of the Board

TASNEEM MOHD DAHALAN
Secretary

Kuala Lumpur
13 March 2018

Notes

1. Audited Financial Statements

   The Audited Financial Statements laid at this meeting pursuant to Section 340(1)(a) of the Companies Act 2016 are meant for discussion only. It does not require shareholders' approval, and therefore, shall not be put forward for voting.

2. **Ordinary Resolutions 1** and **2** – Proposed Re-election of Directors in accordance with Article 88 of the Company's Constitution

   Article 88 of the Company's Constitution provides amongst others that at least one-third of the Directors who are subject to retirement by rotation or, if their number is not three (3) or multiple of three (3), the number nearest to one-third shall retire from office provided always that all Directors shall retire from office once at least in every three (3) years and shall be eligible for re-election.

   Directors who are standing for re-election pursuant to Article 88 of the Company's Articles of Association are as follows:

   i) Dato' Farshila Emran

   ii) Encik Izzat Othman

   The Nomination Committee ("NC") of the Company has assessed the criteria and contribution of Dato' Farshila Emran and Encik Izzat Othman and recommended for their re-election. The Board endorsed the NC's recommendation that Dato' Farshila Emran and Encik Izzat Othman be re-elected as Directors of the Company. The profiles of the Directors who are standing for re-election are set out on page 17 and 20 of the Annual Report; while details of their interests in securities are set out on pages 103 to 104 of the Annual Report.

3. **Ordinary Resolutions 3, 4,** and **5** – Directors' Remuneration

   Section 230(1) of the Companies Act 2016 provides amongst others that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting.

   In this respect, the Board wishes to seek shareholders' approval for the following payments to the Directors of Pharmaniaga Berhad at the Twentieth Annual General Meeting in three (3) separate resolutions as below:

   Ordinary Resolution 3 seeks approval for payment of Directors' fees in respect of the financial year ended 31 December 2017:

   i) RM532,000 for Pharmaniaga Berhad.

   ii) RM144,000 for subsidiaries of Pharmaniaga Berhad.

   Ordinary Resolution 4 seeks approval for payment of Directors' meeting allowances in respect of the financial year ended 31 December 2017:

   i) RM37,250 for Pharmaniaga Berhad.

   ii) RM12,250 for subsidiaries of Pharmaniaga Berhad.

Ordinary Resolution 5 seeks approval for payment of Directors' fees and meeting allowances from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company comprises the following, with or without modifications:

Pharmaniaga Berhad

No	Directors	Annual Fees (RM)
1	Tan Sri Dato' Seri Lodin Wok Kamaruddin	175,000
2	Mohd Suffian Haji Haron	150,000
3	Izzat Othman	130,000
4	Daniel Ebinesan	110,000
5	Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	110,000

		Meeting Allowance (per meeting) (RM)
Board of Directors	Chairman Member	1,000 1,000
Board Committees	Chairman Member	750 500

Subsidiaries of Pharmaniaga Berhad

Name	Position Held	Type	Amount (RM)
Dato' Farshila Emran	**PT Errita Pharma**		
	Director	Directors' Fee (annual) Meeting allowance – per meeting	30,000 1,000
Izzat Othman	**PT Millennium Pharmacon International Tbk**		
	Director	Directors' Fee (annual) Meeting allowance – per meeting • Board • Board Committees	30,000 1,000 750
	PT Errita Pharma		
	Director	Directors' Fee (annual) Meeting allowance – per meeting	48,000 1,000
	Pharmaniaga Logistics Sdn Bhd		
	Director	Directors' Fee (annual)	36,000

4. **Ordinary Resolution 6 –** Re-appointment of Auditors

The Board and Audit Committee of the Company are satisfied with the quality of service, adequacy of resources provided, communication, interaction skills and independence, objectivity and professionalism demonstrated by the External Auditors, Messrs. PricewaterhouseCoopers PLT in carrying out their functions. Being satisfied with the External Auditors' performance, the Board recommends their re-appointment for shareholders' approval at the Twentieth Annual General Meeting.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

5. Explanatory Notes to Special Business

   a) **Ordinary Resolution 7** - Authority for Directors to Allot and Issue Shares

      Ordinary Resolution 7, if passed, will give powers to the Directors to issue up to a maximum of 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company.

      This authority will, unless revoked or varied by the Company at a general meeting, expire at the conclusion of the next Annual General Meeting.

      The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

      As at the date of this Notice, no new shares were issued pursuant to the authority granted to the Directors at the Nineteenth Annual General Meeting held on 6 April 2017, the mandate of which will lapse at the conclusion of the Twentieth Annual General Meeting to be held on 11 April 2018.

   b) **Ordinary Resolution 8** - Recurrent Related Party Transactions

      Ordinary Resolution 8, if passed, will enable the Company and/or its Subsidiaries to enter into recurrent transactions involving the interests of Related Parties, which are of a revenue or trading nature and necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business and on terms not to the detriment of the minority shareholders of the Company ("Mandate").

      Further information on the Mandate is set out in the Circular to Shareholders dated 13 March 2018.

6. Appointment of Proxy

   a) A member of the Company entitled to attend and vote at the meeting is entitled to appoint any person to be his proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.

   b) In the case of a Corporation, the proxy should be executed under the hand of a duly authorised officer.

   c) A member of the Company is entitled to appoint more than one proxy to attend and vote at the same meeting in his stead, provided that the member specifies the proportion of his shareholdings to be represented by each proxy.

   d) Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

   e) The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, should be deposited at the office of the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, located at Unit 32-01, Level 32, Tower A, Vertical Business Suite Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, no later than Monday, 9 April 2018 at 9.00 a.m.

   f) Only members registered in the Record of Depositors as at 2 April 2018 shall be eligible to attend the meeting or appoint a proxy to attend and vote on his/her behalf.

   g) Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice will be put to vote by poll.

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Proxy Form

pharmaniaga (467709-M)

Annual Report 2017 (Incorporated in Malaysia)

I/We____ NRIC (New)/Company No.:________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of____
(FULL ADDRESS)

being a member of PHARMANIAGA BERHAD, hereby appoint*_______________________________________

____ NRIC (New) No.:_______________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ____
(FULL ADDRESS)

and or ______________________________________ NRIC (New) No.:_______________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ____
(FULL ADDRESS)

*or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for *me/us on *my/our behalf, at the Twentieth Annual General Meeting of the Company to be held at Mutiara Ballroom, Ground Floor, Royale Chulan Damansara, No. 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 11 April 2018 at 9.00 a.m. or any adjournment thereof, to vote as indicated below:

No	Resolution	For	Against
1	Re-election of Dato' Farshila Emran		
2	Re-election of Encik Izzat Othman		
3	Approval of Directors' fees for the financial year ended 31 December 2017		
4	Approval of Directors' meeting allowances for the financial year ended 31 December 2017		
5	Approval of Directors' fees and meeting allowances for Pharmaniaga Berhad and its subsidiaries from 1 January 2018		
6	Re-appointment of Messrs. PricewaterhouseCoopers PLT as Auditors		
7	Approval for Directors to allot and issue shares		
8	Renewal of Shareholders' Mandate for recurrent related party transactions		

Dated this ________________ day of ________________ 2018

No. of ordinary shares held:	
CDS account no. of authorised nominee:	
Proportion of shareholdings to be represented by proxies	First Proxy: __________%
	Second Proxy: __________%
Contact No.:	

____
Signature of Member

NOTES

(a) If you wish to appoint as a proxy some person other than the Chairman of the Meeting, please insert in block letters the full name and address of the person of your choice and initial the insertion at the same time deleting the words "the Chairman of the Meeting". A proxy need not be a member of the Company but must attend the Meeting in person to vote. Please indicate with an "X" in the appropriate box how you wish your vote to be cast in respect of each Resolution.

(b) In the case of a Corporation, the proxy should be executed under the hand of a duly authorised officer.

(c) A member of the Company is entitled to appoint more than one proxy to attend and vote at the same meeting in his stead, provided that the member specifies the proportion of his shareholdings to be represented by each proxy.

(d) Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(e) The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, should be deposited at the office of the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, located at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, no later than Monday, 9 April 2018 at 9.00 a.m.

(f) Only members registered in the Record of Depositors as at 2 April 2018 shall be eligible to attend the meeting or appoint a proxy to attend and vote on his/her behalf.

(g) Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions will be put to vote by poll.

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STAMP

Share Registrar of **Pharmaniaga Berhad**

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01,
Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

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Kawasan Perindustrian Bukit Raja Selatan
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