pharmaniaga

2018 ANNUAL REPORT

WHAT'S INSIDE


ROYALE
PHARMA
CASHIER


URGENT

ABOUT US

Pharmaniaga Berhad is proud to be the largest integrated pharmaceutical group in Malaysia. In line with our commitment to excellence, we have established a strong reputation as a provider of quality products and services within the healthcare industry.

Our corporate philosophy is grounded in our motto, *Passion for Patients*. Above all, we are committed to delivering on our promise of high standards of excellence to our clients as part of our aim of creating a lasting legacy of doing business with a conscience.

The ambit of our business interests ranges from research and development, manufacturing of generic pharmaceutical products, sales and marketing as well as logistics and distribution of pharmaceutical products and medical equipment. The Group has also successfully harnessed the synergies of our businesses to expand into the community pharmacy segment.

As an entity listed on the Main Board of Bursa Malaysia Securities Berhad with a strong domestic presence, we have been steadily growing our global presence through our expansion initiatives.

VISION

The preferred pharmaceutical brand in regional markets

MISSION

Provide quality products and superior services by professional, committed and caring employees

Respect
Integrity
Teamwork
Excellence

CORE VALUES

2018 KEY DEVELOPMENTS

COMPLETION OF SAP S/4HANA IMPLEMENTATION

AT ALL LOCAL MANUFACTURING SITES

CERTIFIED ISO 18295-1 : 2017

CUSTOMER CONTACT CENTRE

> 30 PRODUCTS

HALAL CERTIFIED

ALMOST 40

NEWLY REGISTERED PRODUCTS

CLOSE TO 300

ROYALEPHARMA ALLIANCE MEMBERS NATIONWIDE

AT A GLANCE

REVENUE

RM2.4 BILLION

DIVIDEND

16 SEN

R&D EXPENSES AGAINST MANUFACTURING REVENUE

4%

PROFIT BEFORE TAXATION

RM70.2 MILLION

EARNINGS PER SHARE

16.3 SEN

CORPORATE RESPONSIBILITY INITIATIVES

Approximately **RM4 MILLION**

COST SAVINGS INITIATIVES

RM5 MILLION

EMPLOYEES

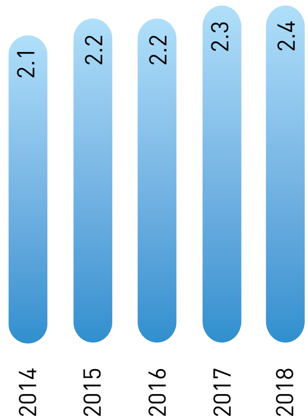
OVER **3,500**

Five-Year Financial Highlights

All figures are in RM Million unless otherwise stated		2018	2017	2016	2015	2014
FINANCIAL PERFORMANCE						
Revenue		2,385.0	2,324.0	2,189.0	2,189.3	2,122.9
Profit before taxation		70.2	73.1	72.0	112.7	125.6
Profit after taxation		43.2	55.1	45.9	84.6	94.2
Net attributable profit		42.5	53.8	45.6	84.0	93.8
Earnings per share	sen	16.3	20.7	17.6	32.5	36.2
Return on equity	%	8.2	10.2	8.6	15.9	18.5
Return on assets	%	6.0	6.1	6.6	9.3	12.0
Return on revenue	%	4.4	4.4	4.8	5.8	6.6
DIVIDENDS						
Dividend payout	%	98.0	91.6	90.9	92.4	77.2
Dividend payment		41.6	49.3	41.5	77.7	72.5
Net dividend per share	sen	16.0	19.0	16.0	30.0	28.0
Dividend yield	%	5.8	4.1	3.0	4.7	6.1
Dividend cover	times	1.0	1.1	1.1	1.1	1.3
GEARING						
Borrowings		642.8	444.3	616.9	400.2	201.1
Gearing	times	1.3	0.8	1.2	0.8	0.4
Interest cover	times	2.9	3.5	3.1	5.9	8.4
OTHER FINANCIAL STATISTICS						
Net assets per share	sen	196.0	203.0	205.0	204.0	203.0
Price earning ratio	times	17.0	22.2	30.1	19.6	12.6
Paid up share capital		149.4	146.2	129.7	129.4	129.4
Shareholders' equity		509.3	528.0	530.6	529.4	526.5
Total equity		528.7	547.1	559.4	560.0	552.0
Total assets		1,907.7	1,607.8	1,683.1	1,495.6	1,242.7

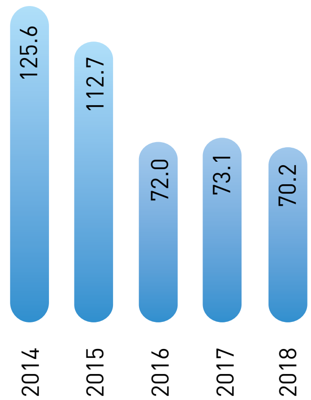
REVENUE

(RM) Billion



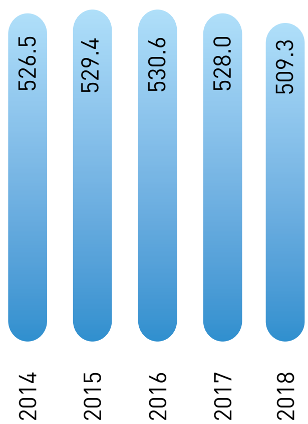
PROFIT BEFORE TAXATION

(RM) Million



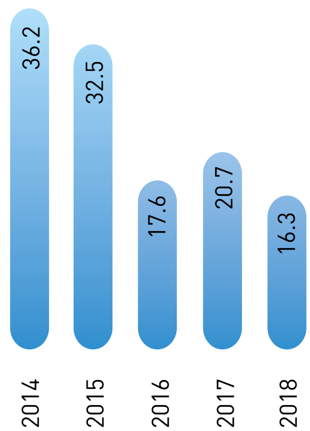
SHAREHOLDERS' EQUITY

(RM) Million



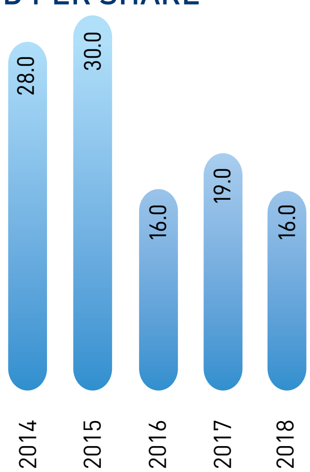
EARNINGS PER SHARE

(sen)



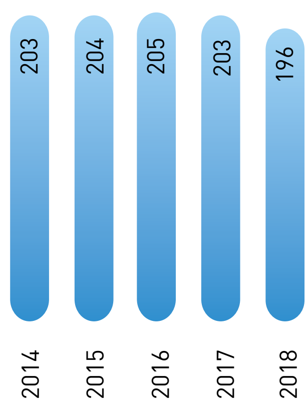
NET DIVIDEND PER SHARE

(sen)



NET ASSETS PER SHARE

(sen)



Corporate Information

BOARD OF DIRECTORS

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN*
Non-Independant 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

FAHMY ISMAIL**
Non-Independent Non-Executive Director

* Board Member until 31 December 2018
** Appointed as Board Member on 1 January 2019

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 :
info@pharmaniaga.com
customercare@pharmaniaga.com
alert@pharmaniaga.com

PRINCIPAL BANKERS

Affin Islamic Bank Berhad
Bank Islam Malaysia Berhad
Hong Leong Islamic Bank Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank (Malaysia) 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
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)
Daniel Ebinesan*
Fahmy Ismail**

NOMINATION COMMITTEE

Chairman
Mohd Suffian Haji Haron

Members
Izzat Othman
Tan Sri Dato' Seri Lodin Wok Kamaruddin*

REMUNERATION COMMITTEE

Chairman
Mohd Suffian Haji Haron

Members
Izzat Othman
Tan Sri Dato' Seri Lodin Wok Kamaruddin*

SUSTAINABILITY COMMITTEE

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

Members
Mohd Suffian Haji Haron
Daniel Ebinesan*
Fahmy Ismail**

* Board Member until 31 December 2018
** Appointed as Board Member on 1 January 2019

FINANCIAL YEAR

1 JANUARY to
31 DECEMBER 2018

ANNUAL REPORT

Issued on 25 March 2019

ANNUAL GENERAL MEETING

To be held on 23 April 2019

RESULTS

1st Quarter
Announced | 16 May 2018

2nd Quarter
Announced | 17 August 2018

3rd Quarter
Announced | 19 November 2018

4th Quarter
Announced | 21 February 2019

DIVIDENDS

1st Interim
Announced | 16 May 2018
Entitlement date | 1 June 2018
Payment date | 20 June 2018

2nd Interim
Announced | 17 August 2018
Entitlement date | 5 September 2018
Payment date | 18 September 2018

3rd Interim
Announced | 19 November 2018
Entitlement date | 5 December 2018
Payment date | 3 January 2019

4th Interim
Announced | 21 February 2019
Entitlement date | 12 March 2019
Payment date | 10 April 2019

Awards & RECOGNITIONS

Received in 2018

1

MALAYSIA TOP ACHIEVER AWARDS 2017

INDUSTRY EXCELLENCE IN PHARMACEUTICAL

2

GHP PHARMACEUTICAL MANUFACTURING & PACKAGING AWARDS 2018

1. BEST CONTRACT PHARMACEUTICAL MANUFACTURER – MALAYSIA
2. AWARD FOR EXCELLENCE IN PRODUCT DEVELOPMENT

3

MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS: MOST POPULAR GRADUATE EMPLOYER OF THE YEAR 2018

PHARMACEUTICAL

4

CUSTOMER CONTACT CENTRE ISO 18295-1 : 2017

5

FOCUS MALAYSIA: BEST UNDER BILLION AWARDS 2018

BEST SUSTAINABILITY REPORTING

Board of Directors

pharmaniaga

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

Fahmy Ismail **
Non-Independent
Non-Executive Director

* Board Member until 31 December 2018
** Appointed as Board Member on 1 January 2019

Tan Sri Dato' Seri Lodin Wok Kamaruddin
Non-Independent Non-Executive Chairman
(Until 31 December 2018)

WORKING EXPERIENCE AND OCCUPATIONS

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

Age : 69

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 Meetings 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)

Details of any interest in the securities of Pharmaniaga Berhad :
12,500,148 Ordinary Shares

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

Dato' Farshila Emran
Managing Director

Age : 52

Gender : Female

Nationality : Malaysian

Date of first appointment to the Board :
25 March 2011

Date of last re-election :
11 April 2018

Board Committee(s) :
None

Board Meetings attended in the financial year :
4/4

Qualification(s) :
- Master of Business Administration, Universiti Utara Malaysia
- Diploma in Office Management, Universiti Teknologi MARA

Details of any interest in the securities of Pharmaniaga Berhad :
351,500 Ordinary Shares

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 began her career as a tutor in Universiti Teknologi MARA 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 a 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 Anugerah Tokoh Srikandi by Gabungan Pelajar Melayu Semenanjung (GPMS), The Asia HRD Awards for Contribution to Society Award in 2018, Woman Entrepreneur of the Year by Aces Corporate Excellence, Best Under Billion Awards 2018 for Best Sustainability Reporting, 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 is also a member of Global Science & Innovation Advisory Council Steering Committee for Malaysia.

Profile of Directors

Mohd Suffian Haji Haron
Senior Independent
Non-Executive Director

WORKING EXPERIENCE AND OCCUPATIONS

Mohd 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.

Age : 73

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 Meetings attended in the financial year :
4/4

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

Details of any interest in the securities of Pharmaniaga Berhad :
100,000 Ordinary Shares

Directorship in other public listed companies :
- Affin Bank Berhad

Directorship in public companies :
- 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

Daniel Ebinesan
Non-Independent Non-Executive Director
(Until 31 December 2018)

Age : 73

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 Meetings 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)

Details of any interest in the securities of Pharmaniaga Berhad :
600,000 Ordinary Shares

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

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 was the Advisor, Group Finance of Boustead Holdings Berhad. He was 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.

Izzat Othman
Independent
Non-Executive Director

WORKING EXPERIENCE AND OCCUPATIONS

Izzat is a lawyer by profession. He was formerly a director of Affin Securities Sdn Bhd and BH Insurance Berhad. He 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 33 years of experience.

Age : 57

Gender : Male

Nationality : Malaysian

Date of first appointment to the Board :
25 March 2011

Date of last re-election :
11 April 2018

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

Board Meetings attended in the financial year :
4/4

Qualification(s) :
- LLB (Honours), University of Malaya

Details of any interest in the securities of Pharmaniaga Berhad :
None

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

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

Independent Non-Executive Director

Age : 63

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) :
- Chairman of Sustainability Committee
- Member of Audit Committee

Board Meetings attended in the financial year :
3/4

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

Details of any interest in the securities of Pharmaniaga Berhad :
None

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 a Medical Officer with Ministry of Defence and served the Malaysian Armed Forces for more than 30 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.

Fahmy Ismail

Non-Independent
Non-Executive Director

WORKING EXPERIENCE AND OCCUPATIONS

Fahmy began his career as a management trainee in 1999 and assumed several finance roles within the Renong Group. His last held position prior to joining Boustead Holdings Berhad (BHB) was as an Assistant Manager of Corporate Finance for Sapuracrest Petroleum Berhad.

In 2006, he joined BHB as the manager of Corporate Planning Department. Three years later, he was appointed as Chief Executive Officer of Boustead REIT Managers Sdn Bhd, the Manager of Al-Hadharah Boustead REIT. He was the Chief Executive Officer of Boustead Plantations Berhad from 2014 to 2018. He was later promoted to Group Finance Director of BHB in 2017 and concurrently as Chief Operating Officer of BHB starting from 1 January 2019.

On 1 January 2019, Fahmy was appointed as a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He has 20 years of experience in corporate finance, accounting, performance reporting, treasury and corporate planning.

Age : **42**

Gender : **Male**

Nationality : **Malaysian**

Date of first appointment to the Board :
1 January 2019

Date of last re-appointment :
Not Applicable

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

Board Meetings attended in the financial year :
None, as Fahmy was appointed on 1 January 2019

Qualification(s) :
- Certified Practicing Accountant, CPA Australia
- Chartered Accountant, Malaysian Institute of Accountants (MIA)
- Bachelor of Commerce in Accounting and Finance, University of Sydney, Australia

Details of any interest in the securities of Pharmaniaga Berhad :
100 Ordinary Shares

Directorship in other public listed companies :
None

Directorship in public companies :
- Johan Ceramic 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

“Great things can be achieved by leading through wisdom, empathy and integrity-with no other agenda than humanity”

Richard Branson

MONITOR & MEASURE

This message is brought to you by 'Do It Right Always'

Senior Management Team

Profile of Senior Management Team

Dato' Farshila Emran
Managing Director

Age : 52

Gender : Female

Nationality : Malaysian

As expressed on page 17 of the Profile of Directors

Mohamed Iqbal Abdul Rahman
Chief Operating Officer

Age : 55

Gender : Male

Nationality : Malaysian

Date of appointment to present position :
1 June 2012

Qualification(s) :

- Bachelor of Computer Science, Universiti Putra Malaysia

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

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 27 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.

Norai'ni Mohamed Ali
Chief Financial Officer

WORKING EXPERIENCE AND OCCUPATIONS

Norai'ni joined Pharmaniaga in 2001 and was a Senior General Manager, Finance prior to her promotion as Procurement Director in 2011. Subsequently she was appointed as the Chief Financial Officer in 2012. She also sits on the Boards of local and overseas subsidiaries of Pharmaniaga.

Prior to joining the Company, Norai'ni was attached to Opus Group Berhad, a subsidiary of UEM Group Berhad for eight years.

She is responsible for all financial matters including acquisition of strategic business, treasury, risk management strategies and formulation of financial policies and tax planning of Pharmaniaga. She has vast experience of more than 27 years in accounting and finance.

Age : 52

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 June 2012

Qualification(s) :
- Chartered Accountant, the Association of Chartered Certified Accountants (ACCA)
- Chartered Accountant, Malaysian Institute of Accountants (MIA)
- Bachelor of Arts (Honours) Accounting and Finance, Liverpool John Moores University, United Kingdom

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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 Haji Shaari
Technical Director

Age : 65

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 April 2011

Qualification(s) :

- Bachelor of Science Majoring in Pharmacology, University of London (Chelsea College), United Kingdom

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

Datin Shamsinar was appointed as the Technical Director of Pharmaniaga in 2011. She has over 40 years of experience under her belt in the pharmaceutical industry. In her capacity as a Technical Director, her role is mostly strategic where she ensures the growth of all seven manufacturing sites under her division of which six plants are located in Malaysia and one is in Bandung, Indonesia.

Apart from ensuring operational excellence and uninterrupted product supplies at each site, she drives various programmes such as plant expansion, acquisition of new technologies, strategic business partnerships and the introduction of high value new products. These initiatives are in tandem with Pharmaniaga's aspiration to be a global generic pharmaceutical company and to be competitive globally.

She is an active member in various pharmaceutical societies both locally and internationally such as the International Society for Pharmaceutical Engineering (ISPE) and the Parenteral Drug Association (PDA). Currently she is an EXCO member of the Malaysian Organisation of Pharmaceutical Industry (MOPI).

Profile of Senior Management Team

Abdul Malik Mohamed
Logistics & Distribution Director

WORKING EXPERIENCE AND OCCUPATIONS

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 of more than 26 years in logistics operations and supply chain management.

Age : 53

Gender : Male

Nationality : Malaysian

Date of appointment to present position :
1 April 2011

Qualification(s) :
- Bachelor of Science (Honours) in Computer Science and Management, Universiti Sains Malaysia

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

Sharifah Fauziyah Syed Mohthar
Regulatory Affairs Director

Age : 48

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 April 2011

Qualification(s) :
- Bachelor of Pharmacy (Honours), Universiti Sains Malaysia

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

Sharifah Fauziyah was appointed as the Regulatory Affairs Director of Pharmaniaga in 2011. She 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.

Zulhazri Razali
Commercial Director

WORKING EXPERIENCE AND OCCUPATIONS

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, international business, sales marketing, finance and business strategy.

He was promoted as the Commercial Director in 2014. He oversees sales and marketing for local and international markets, including operations of PT Millennium Pharmacon International TBK in Indonesia.

Age : 52

Gender : Male

Nationality : Malaysian

Date of appointment to present position :
1 June 2014

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

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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 : 46

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 September 2017

Qualification(s) :
- Bachelor of Applied Science (Honours) Majoring in Geophysics, Universiti Sains Malaysia

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

Yang Fairuz was appointed as the Corporate Services Director in 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.

Profile of Senior Management Team

Ida Marianna Abdul Rashid
Strategic Planning Director

WORKING EXPERIENCE AND OCCUPATIONS

Ida Marianna was appointed as Director of Strategic Planning on 1 February 2018. Prior to joining Pharmaniaga, Ida Marianna started her career with AC Nielsen Malaysia before venturing into the oil and gas industry for 20 years. During her tenure in the oil and gas industry, she was attached to Malaysia national oil company, PETRONAS for 8 years and an US independent oil company, Hess Corporation for 12 years.

Ida Marianna's vast experience includes strategic planning, commercial, global negotiation, business development, external relations, corporate communications, corporate social responsibility and human resource.

Age : 45

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 February 2018

Qualification(s) :
- Bachelor of Science (Honours) Majoring in Genetics, University of Malaya

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

Wan Intan Idura Wan Ismail
Corporate Governance Deputy Director

Age : 39

Gender : Female

Nationality : Malaysian

Date of appointment to present position :
1 January 2017

Qualification(s) :
- LLB (Honours), Universiti Teknologi MARA

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

Wan Intan Idura joined Pharmaniaga in 2010 as Assistant Manager, Legal Department and became Head of Legal Department in 2012.

She continued to expand her career in Pharmaniaga by developing relevant skills and knowledge and was subsequently promoted as Deputy Director of Corporate Governance on 1 January 2017. She is responsible for all the legal and secretarial services of Pharmaniaga.

She was admitted to the Malaysian Bar in 2016. With nearly 13 years of experience as an in-house legal counsel, she has vast experience in both local and international dealings within the pharmaceutical, information technology solutions, manufacturing and automotive industries.

Mohamad Muhazni Mukhtar
President Director
PT Millennium Pharmacon International Tbk

WORKING EXPERIENCE AND OCCUPATIONS

Mohamad Muhazni joined on 1 October 2012 as the President Director of PT Millennium Pharmacon International Tbk, Pharmaniaga's Indonesian subsidiary.

Despite the challenges, with his extensive experience in the area of operations, he has steadily guided the Company to reach greater heights.

Prior to joining Pharmaniaga, he has worked for 19 years in various fields namely marketing, corporate finance, corporate services and operations.

Age : 50

Gender : Male

Nationality : Malaysian

Date of appointment to present position :
1 October 2012

Qualification(s) :
- Master of Business Administration, Ohio University / Universiti Teknologi MARA
- Master of Science, in Business Leadership, Newcastle Business School, Northumbria University, United Kingdom
- Bachelor of Business Administration in Management Science, University of Iowa, Iowa City, United States of America
- Associate Degree, Indiana University, United States of America

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

Zakaria Daud
President Director
PT Errita Pharma

Age : 57

Gender : Male

Nationality : Malaysian

Date of appointment to present position :
1 January 2015

Qualification(s) :

- Bachelor of Pharmacy (Honours) Universiti Sains Malaysia

Any directorship in public companies and public listed companies :
None

Any family relationship with any director and/or 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

WORKING EXPERIENCE AND OCCUPATIONS

Zakaria was appointed as the President Director cum Head of Plant for PT Errita Pharma, a subsidiary of Pharmaniaga International Corporation Sdn Bhd on 1 January 2015. He is responsible for overseeing the manufacturing and sales of our pharmaceutical products in Indonesia. Prior to relocating to Indonesia, Zakaria was the Head of Plant at Idaman Pharma Manufacturing Sdn Bhd at Seri Iskandar, Perak.

He has over 30 years of experience in the field of sales, supply chain management, customer service and logistics, amongst others.

Nurturing Leaders

Based on our Company culture of rewarding performance, upholding excellence and empowering growth potential, the Group's leadership culture is one that allows our people to feel empowered, inspired and fulfilled.

MESSAGE

Dear Shareholder,

On behalf of the Board, I am glad to share that Pharmaniaga continued to excel in 2018, underpinned by strong fundamentals which enabled the Group to navigate a challenging economic climate.

As Malaysia's largest listed integrated pharmaceutical company, we are propelled by our motto of *Passion for Patients*, with a firm focus on providing accessible and affordable healthcare solutions. We maintained this commitment during the year, actively managing and improving our product portfolio through our research and development capabilities, as well as branching out into new areas which hold vast potential for the Group. We also continued to step up our presence in the global arena via our overseas operations.

These efforts enabled us to deliver positive results for the year and set the wheels in motion for the Group to leverage on prospects ahead, as we strive to become the preferred pharmaceutical brand regionally.

FROM THE BOARD

During the year, we actively managed and improved our product portfolio through our research and development capabilities. We also continued to step up our presence in the global arena via our overseas operations

ECONOMIC LANDSCAPE

The world economy recorded a moderate growth rate of 3.7% in 2018, amid weaker expansion in advanced economies and softer growth in emerging and developed markets. The escalating trade dispute between the US and China also had an impact on global economic growth.

Amidst these global headwinds, the Malaysian economy grew by 4.7% in 2018, driven by private sector activity and improvement in commodity-related sectors. The services, manufacturing and construction sectors were also key contributors, recording positive growth.

FINANCIAL PERFORMANCE

The tough market landscape continued to persist in 2018. Against this backdrop, the Group posted an improved revenue of RM2.4 billion compared with RM2.3 billion in the previous financial year. Profit before tax came in at RM70.2 million, a marginal decline from 2017. The previous year's results benefitted from a one-off compensation in relation to a former joint venture company in China.

Our steadfast commitment to cost optimisation measures contributed to our solid performance for the year. This enabled the Group to maintain a sound liquidity position and continue to enhance value for our shareholders.

Market capitalisation stood at RM724 million while shareholders' funds remained healthy at RM509.3 million as at 31 December 2018. Earnings per share for the year was 16.3 sen while net assets were RM1.96 per share.

DIVIDEND

We are dedicated to delivering shareholder value through consistent dividend payouts. To this end, the Board of Directors declared a fourth interim dividend of 2 sen per share, to be paid on 10 April 2019 to shareholders on the register as at 12 March 2019. This brings total dividend for the year to 16 sen per share.

We go to great lengths to cultivate a strong pool of talent with the necessary capabilities to drive the Group forward

HUMAN CAPITAL

Our people are paramount to our continued growth and success. We go to great lengths to cultivate a strong pool of talent with the necessary capabilities to drive the Group forward.

With a workforce of over 3,500 people throughout Malaysia and Indonesia, we have a wide range of learning and development programmes in place to help our employees unlock their potential. This comprises soft skills and technical skills training, coupled with leadership and competency programmes and inspirational workshops for women. Along with this, to attract and retain top talents, we offer competitive incentives and benefits, which were further enhanced in 2018.

In tandem with developing our people, we are equally focused on offering opportunities to young Malaysians. Pharmaniaga nurtures fresh talents by supporting the Provisionally Registered Pharmacist training programme, as well as the Government's Professional Training and Education for Graduating Entrepreneurs (PROTÉGÉ) initiative.

Additionally, to strengthen employee engagement and improve productivity, we organise various initiatives throughout the year. This includes sports and fitness activities, fun events to boost teamwork, as well as beneficial workshops and free health checks.

SUSTAINABILITY

As Pharmaniaga develops and has a greater impact in areas of operations, sustainability becomes increasingly important. We have always strived to incorporate sustainable practices throughout our operations to ensure that we are able to build a sustainable future, not only for the Group but for the community and the environment as well.

We reinforced our economic, environmental and social responsibilities in 2018 through ongoing initiatives and programmes. These bring us further along our path towards sustainable development.

Approximately RM4 million was invested for Pharmaniaga's Corporate Responsibility initiatives in 2018

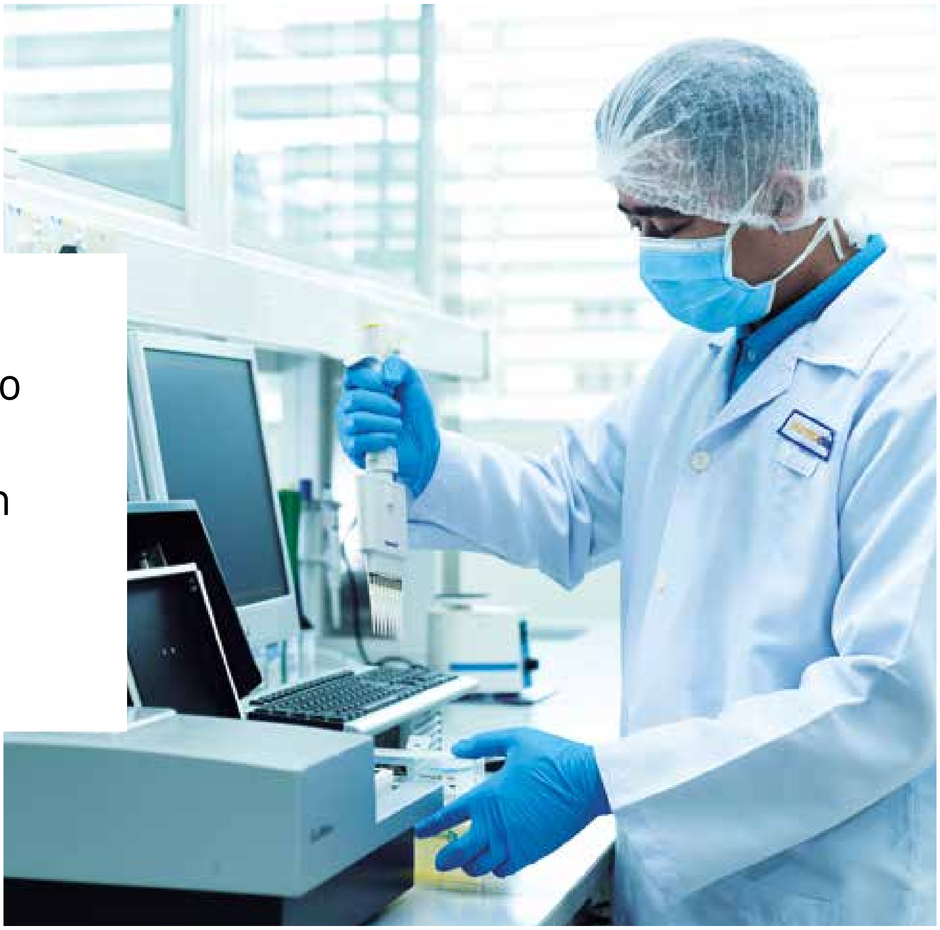
We invested approximately RM4 million in Corporate Responsibility initiatives in 2018. This included our *Skuad Operasi Sihat* programme which reached almost 5,000 people nationwide, encouraging more Malaysians to take better care of their health. To help curb Hand, Foot and Mouth Disease in the country, we launched the *#PerangiHFMD* campaign, contributing close to 12,000 bottles of hand sanitisers to kindergartens and primary schools.

A key environmental programme for the year was our Go Green initiative, encompassing our manufacturing operations. This comprised the installation of solar panels, water recycling, recycling of packaging and other materials, energy reduction measures and installation of energy efficient chillers and cooling towers. We also launched other environmental campaigns such as the PharmaGREEN Eco Garden, Choose To Reuse Campaign and SecondChance Project.

Through our Bumiputera Pharmacy Development Programme, pharmacists are able to grow their capabilities and broaden their network. We expanded the programme to close to 300 members across the nation in 2018.

Further activities undertaken by the Group are extensively reviewed in our dedicated Sustainability Report which accompanies this Annual Report. Moving forward, we are focused on heightening our efforts to promote economic, environmental and social sustainability. Our commitments in these areas will ultimately ensure the resilience of Pharmaniaga in the years to come.

New areas we are tapping into are oncology and vaccines in collaboration with global partners



OUTLOOK

The global economy is projected to see waning momentum in 2019. Tightening financial conditions and headwinds for both advanced and emerging economies are expected to persist. While the Malaysian economy is estimated to grow at a slower pace of 4.6% in 2019, we are optimistic that with its solid economic fundamentals, Malaysia will remain resilient.

Indeed, prospects for the pharmaceutical and healthcare industries continue to be positive. Testament to this is the Government's allocation of RM29 billion to the Ministry of Health (MOH) in the 2019 National Budget, with RM10.8 billion earmarked for provision of medicines and upgrading of services at clinics and hospitals.

As a key logistics service provider of quality medicines to MOH via our concession business, Pharmaniaga is well-positioned and well-equipped to meet these needs. Complementing this, our research and development initiatives will enable us to deliver a continuous stream of products to meet market demands.

To further strengthen our earnings potential, we are exploring new avenues of growth, including the medical devices industry. Having secured a number of notable projects including an equipping project for a teaching hospital in Sabah, we are confident that this will contribute to our future growth.

Other new areas we are tapping into are oncology and vaccines in collaboration with global partners. This will allow us to expand our expertise and capabilities, enabling us to serve the increasing need for quality products in these segments.

We continue to scale up our overseas presence, particularly in Indonesia where we are accelerating our operations to capitalise on strong growth potential in the country. Plans are also progressing well in the European Union, which bodes well for our long-term prospects.

ACKNOWLEDGEMENT

In a year marked by significant changes, Pharmaniaga persevered to once again deliver a consistent performance. This was due in no small part to our invaluable Board members, who steered Pharmaniaga to greater heights. Our deepest gratitude as well, to our dedicated management team and employees, whose committed efforts enabled us to progress further.

On behalf of the Group, I would also like to take this opportunity to express our utmost appreciation to our previous Chairman, YBhg Tan Sri Dato' Seri Lodin Wok Kamaruddin. His leadership and guidance over these many years have been invaluable. He has indeed played an instrumental role in driving the growth and success of Pharmaniaga and we wish him all the best in his journey ahead.

In addition, we would like to thank Mr Daniel Ebinesan who has completed his tenure as a member of the Board. We are sincerely grateful for his years of dedication and significant contributions to our Group and wish him well.

As we embark on a new chapter for Pharmaniaga, we are pleased to welcome our newest Board member, Encik Fahmy Ismail. A seasoned professional with a proven track record, he brings with him a wealth of experience and an astute understanding of the world of finance and corporate restructuring.

Our heartfelt gratitude also to our shareholders, our key client, MOH, as well as our other clientele, suppliers, partners, bankers and the relevant authorities in Malaysia and internationally, for their support and continued trust in Pharmaniaga.

MOHD SUFFIAN HAJI HARON
Senior Independent Non-Executive Director

MANAGING DIRECTOR'S REVIEW

CONTINUED STRATEGIC PROGRESS

DATO' FARSHILA EMRAN
Managing Director

Dear Shareholder,

On behalf of the team in Pharmaniaga, it is my pleasure to present our Annual Report for 2018, which ended as another strong year of profitability for the Group, yielding solid returns to shareholders. We continued to provide top-notch pharmaceutical services by staying true to our motto, *Passion for Patients*.

The pharmaceutical industry itself is experiencing evolving dynamics, creating both uncertainty and opportunity. Fortunately, Pharmaniaga is well-placed to succeed in this challenging environment, thanks to our formidable foundation and track record.

2018 was a year of progress for Pharmaniaga, from our operational excellence in our various divisions to our financial performance. We leveraged on our capabilities as a team, to deliver on our commitment to provide products and services of the highest quality. We continued to build on our trusted reputation in the pharmaceutical industry, both in Malaysia and beyond our shores.

FINANCIAL PERFORMANCE

Despite a challenging economic environment, our fundamentals enabled the Group to record steady results for 2018, with a profit before tax of RM70.2 million. This was achieved on the back of a turnover of RM2.4 billion, propelled by consistent growth in the concession and private sector businesses, coupled with continuous operational improvements and cost optimisation initiatives.

Our gearing ratio increased to 1.3 times in 2018, compared with 0.8 times last year. This was primarily due to glitches in the Government's procurement system that resulted delay in payments. Total capital expenditure for the year amounted to approximately RM30 million. This was mainly utilised for warehouse capacity expansion and upgrading of our manufacturing facilities.

OPERATIONAL HIGHLIGHTS

Holding fast to our motto, *Passion for Patients*, we delivered operational excellence throughout our divisions, providing the highest quality products and services to our clientele. This unwavering dedication is evident in the Customer Satisfaction Survey where 92% rated us as 'Good' and 'Excellent'. We also conducted surveys involving Ministry of Health (MOH), Hospital Universiti Sains Malaysia, Pusat Perubatan Universiti Malaya and Hospital Canselor Tuanku Muhriz Universiti Kebangsaan Malaysia, as well as the private sector, receiving positive ratings overall from respondents.

Our performance metrics are further evidence to the Group's efficiency, as we recorded 98% fulfilment to the performance standards set by MOH.

MOH remains a core segment of our concession business and in 2018, sales of Approved Products Purchase List products to MOH rose by 9%. Building on our proven track record with MOH, we grew our clientele among other Government entities including the Ministry of Home Affairs, the Ministry of Education, the Ministry of Defence, along with Institut Jantung Negara and Lembaga Tabung Haji.

We made deeper inroads into the medical devices segment, successfully winning an equipping project for a new teaching hospital in Sabah. This is certainly an emerging market in Malaysia which we are poised to tap into the coming years.

Marking another milestone for Pharmaniaga, we are proud to be the first pharmaceutical company in the country to be accredited under the Customer Contact Centre ISO 18295-1 : 2017. In line with our *Do It Right* campaign, this demonstrates our proactive approach towards elevating our quality of services benchmarked against best practices, by not only meeting but surpassing required standards. This places us in the same league as other prominent companies in Malaysia which undertook this certification.

Conscious of the value of digital transformation to improve operational efficiencies, we successfully completed the implementation of the SAP S/4HANA enterprise resource planning system at all our manufacturing sites in Malaysia. This software allows for a simplified information technology process in which one platform is deployed for all sites, eliminating the need for duplicating data entry while facilitating the effective use of resources, machines and capacities.

We made strides in the expansion of our product portfolio, mindful of the needs of the consumer healthcare market. Our focus products SweetRoyale Stevia and Perozin are aimed at addressing rising health problems in Malaysia. SweetRoyale Stevia is a natural sweetener and Perozin is a joint pain reliever made with natural ingredients including ginger, peppermint and rosemary. We embarked on digital marketing campaigns for these products, which led to increased sales in the year under review.

Please scan

Certified Customer Contact Centre ISO 18295-1 : 2017

Completion of SAP S/4HANA implementation at all manufacturing sites in Malaysia

> 30 products Halal certified

Meanwhile, we have entered into the new therapeutic segments of oncology and vaccines. Products have been selected for trading and technology transfer and we are working with established global partners.

In the international arena, Pharmaniaga accelerated efforts to broaden our regional footprint. Our Indonesian listed subsidiary, PT Millennium Pharmacon International Tbk (MPI), recorded a 13% increase in net sales (Indonesian Rupiah) during the year, attributable to strong sales of ethical and medical disposable products. PT Errita Pharma also posted higher sales for the year, with almost ten new products successfully commercialised. Nevertheless, their performance has been impacted by the depreciation of the Indonesian currency.

All efforts were further boosted by improved synergies with MPI. This growth surpassed the 7% average growth recorded by the Indonesian pharmaceutical industry.

Recognising the immense prospects of the Halal industry in the region and globally, we have successfully attained Halal certification for more than 30 products during the year. We look to grow this segment further to strengthen our competitive edge as a global Halal pharmaceutical provider.

COMPLIANCE CULTURE

As a leading pharmaceutical company, strict adherence to rules and regulations is our main priority. Our compliance culture is demonstrated by the zero Non-Conformance Record that we achieved in surveillance audits conducted by SIRIM for Good Distribution Practice for Medical Devices (GDPMD). This enabled us to retain our GDPMD certification. Complementing this, we received satisfactory results from audits by the National Pharmaceutical Regulatory Agency (NPRA) for Good Manufacturing Practice at four of our manufacturing sites. We also undertook regular monitoring of our logistics operations to ensure full compliance to Good Distribution Practice and GDPMD. Our RoyalePharma community pharmacy outlets are in full compliance with the Pharmacist Type A License Audit by State Pharmacy Enforcement branches.

To heighten our quality control, to date, almost 20 sub projects were rolled out under the Pharmaniaga Integrated Quality System (PIQS), which integrates all manufacturing quality systems. Close to ten projects have been successfully completed and endorsed by the PIQS Committee and management.

We also took part in a pilot project by NPRA for the Pharmacovigilance System Master File. Demonstrating our commitment to Malaysian Pharmacovigilance Guidelines, Pharmaniaga was the only local pharmaceutical company to participate in this pilot project.

The Group is also a signatory to the Malaysian Anti-Corruption Commission Corruption-Free with anti-corruption and prevention initiatives regularly scheduled for employees. Employees are provided various avenues to report misconduct including corruption. We are also embarking on the Anti-Bribery Management System ISO 37001 : 2017 certification which covers the procurement processes including trade or non-trade transactions of products and services across the Pharmaniaga Logistics Sdn Bhd (PLSB).

The Anti-Bribery Management System has provided PLSB a framework of managing anti-bribery and to comply with relevant legislations. The implementation includes all procurement transactions involving business associates, vendors and suppliers of the Company. The activities include, but not limited to education and sharing sessions with vendors, the anti-corruption clauses incorporated into business agreements and the introduction of new Standard Operating Procedures on handling vendors and suppliers.

We enhanced our *Do It Right* campaign and have taken it to the next phase in 2018, with *Do It Right Always (DIRA)*. With activities such as seminars, webinars, dialogues, games, contests, training, workshops and daily email blasts, we steered the Pharmaniaga community to be ever mindful of our commitment towards delivering excellent services and encouraged our talent pool to take ownership of managing quality.

Inspired by the International Society for Pharmaceutical Engineering, new initiatives were carried out for DIRA emphasising six dimensions of cultural excellence, comprising Leadership & Vision, Mindset & Attitude, the Gemba Walk, Leading Quality Indicator, Oversight & Reporting and Cultural Enablers. These activities perfectly complemented *Do It Right* Week, consistently positioning our *Do It Right* ethos throughout the year. These activities also fostered good team work and strengthened the *esprit de corps* amongst employees.

NURTURING TALENTS

To drive performance in the highly competitive pharmaceutical sector, we are focused on fostering a talent pool with the necessary capabilities to propel the sustainable growth of the Group.

We supported local universities to mould young Malaysians and equip them with the right skill sets to succeed in the pharmaceutical industry. Apart from this, we provided young Malaysians with valuable on-the-job training in the newly renamed Professional Training and Education for Graduating Entrepreneurs (PROTÉGÉ) programme and also recognised top students through our Book Prize Award and Convocation Award. Recipients included high achievers from

WE ENHANCED OUR *DO IT RIGHT* CAMPAIGN AND HAVE TAKEN IT TO THE NEXT PHASE IN 2018, WITH *DO IT RIGHT ALWAYS* (DIRA)

Universiti Sains Malaysia, Universiti Kebangsaan Malaysia and Universiti Teknologi MARA, to name a few. To ease the financial burden of education, we introduced the First Time Higher Education Interest Subsidy for the children of Pharmaniaga employees. A Motivational Exam Seminar was also conducted for the children of our employees, while the Academic Achievement Award recognised those who did well in their examinations.

As a result of these efforts, the Group was once again honoured as the top employer of choice in the Pharmaceutical sector, winning Malaysia's 100 Leading Graduate Employers Award. This marks the sixth year that Pharmaniaga has received this accolade.

Meanwhile, to recognise the hard work of our people and provide attractive incentives, we introduced new benefits. This includes enhanced medical benefits covering important vaccinations, such as for Pneumococcal and Meningococcal, as well as increased paternity leave entitlement from two to five working days.

These combined initiatives collectively help us to attract fresh talents, while retaining our current highly capable workforce.

PROMISING FUTURE

As we strive to push forward and capitalise on the inherent potential of the pharmaceutical industry, we will continue to leverage on our strong fundamentals and raise the bar via operational improvements in the coming year.

Prospects are certainly positive for the Group, particularly given the Government's Budget 2019 announcement, with a higher allocation of nearly RM29 billion for MOH. This serves as a perfect platform for Pharmaniaga to contribute to the Government's objective in ensuring quality healthcare is accessible to all.

To propel our growth plans, in 2019 we have projected capital expenditure of approximately RM174 million. This will go towards continued expansion of our logistics network and warehouse capacity, as well as building up our manufacturing capabilities.

We remain on track to develop more products by 2024. This is driven by our established research and development (R&D) capabilities, as reflected by more than 90% products approved by the NPRA for our product development dossiers. To support our R&D initiatives, we have engaged two contract research organisations. Thus far, work has advanced accordingly within the stipulated timelines.

In addition, as part of our plans to strengthen our footing in the Halal sector, we aim to obtain Halal certification for an additional 45 products in 2019.

Meanwhile, via our bioequivalence studies, more products are in the pipeline to receive bio-equivalent status.

Our entry into the new segments of oncology and vaccines is progressing well. Almost ten oncology products have been identified and plans are underway for product registration. Concurrently, work is expected to commence in 2019. In the vaccine segment, we are currently laying the groundwork together with our international partner.

Hepatitis C is a liver disease caused by the Hepatitis C virus and spreads through contaminated blood. It is most commonly transmitted through unsafe drug injection practices, inadequate sterilisation of medical equipment and the transfusion of unscreened blood.

In Malaysia, an estimated 500,000 people suffer from Hepatitis C, with approximately 2,000 new cases reported every year. With costs of over RM300,000 per patient, this makes the treatment out of reach for many. Middle income countries including Malaysia have been excluded from having the Voluntary License to make, sell and import generic version of the Hepatitis C drugs.

However, in September 2017, Malaysia made a historic decision by becoming the first country to exercise Compulsory License to remove patent barriers for Hepatitis C treatments. This Government initiative, supported by Pharmaniaga, Drugs for Neglected Diseases Initative (DNDi), together with one of the largest international manufacturers of pharmaceutical products aims to make treatment of Hepatitis C more accessible and affordable. With this latest achievement, the overall treatment costs are now significantly reduced and we are able to provide affordable treatment option to patients in Malaysia.

To expand our global presence, efforts are ongoing to pursue the necessary product registration and approvals in markets abroad. In Indonesia, we plan to introduce more products under the Citrex range. While in the European Union, we are seeking prospective distributors with a view to widen our appeal to greater market segments. We are confident that our hospital-specific injectable range will gain a foothold in the European market and contribute to the Group's long-term profitability.

The equipping project awarded to Pharmaniaga by a teaching hospital in Sabah will be a key driver of our medical devices segment for the next five years, alongside other ongoing projects.

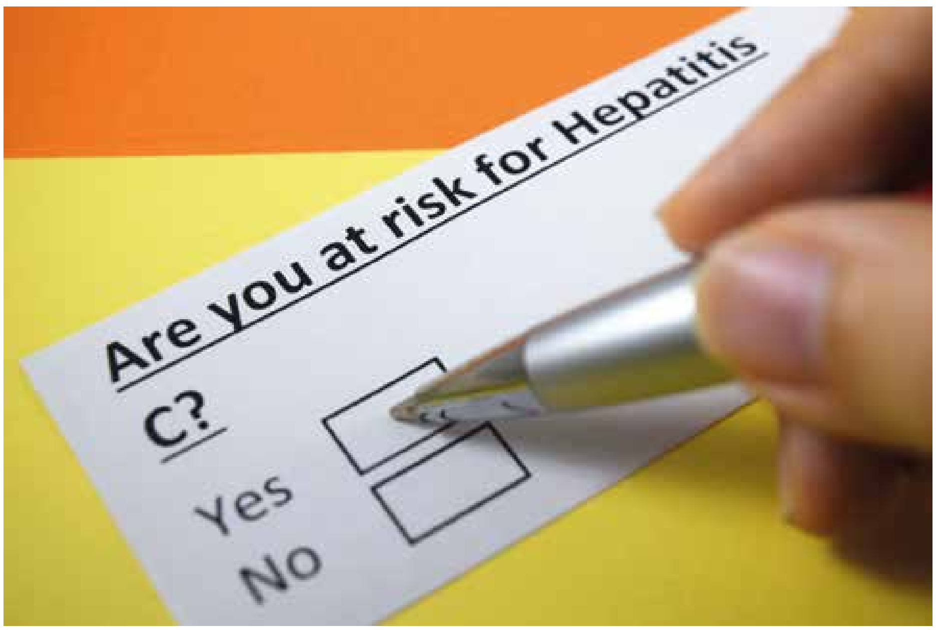
To facilitate our growth, we are focused on optimising efficiencies in our transportation fleet, equipment and system automation and overall manufacturing operations, along with cost savings and cost reduction measures to strengthen our logistics network nationwide. We are also increasing our warehouse capacity to widen our national reach to better serve clients across Malaysia.

Apart from this, we are exploring the expansion of our services as a healthcare distributor for local and multinational manufacturers, offering integrated services and other logistics support. In tandem, we are looking at collaborating with private hospitals to provide central supply chain services.

The following pages delve into our business activities over the past year. The initiatives executed by the Group reflect our passion and commitment to realise greater results and accelerate our growth.

As we usher in another exciting year, we renew our commitment to intensify our performance and unlocking value for our shareholders, strengthening our position as a leading Malaysian pharmaceutical company.

Underpinning our achievements in 2018, our Board members have provided invaluable leadership and guidance to help Pharmaniaga leap forward. Our heartfelt thanks as well to our highly capable management team and our dedicated employees for executing our business plans and delivering results.



I wish to convey my deepest gratitude to our former Chairman, YBhg. Tan Sri Dato' Seri Lodin Wok Kamaruddin and our former Non-Independent Non-Executive Director, Mr Daniel Ebinesan. We would not have been able to accomplish all that we have if not for their wise counsel and sound judgment, even during challenging times. We thank them for shaping Pharmaniaga into the success it is today and leaving a legacy of strength and resilience for us to build on.

Last but not least, our sincere appreciation to our clients, business partners, suppliers, shareholders and relevant approving authorities for their unwavering and continuous support to Pharmaniaga.

DATO' FARSHILA EMRAN
Managing Director

OPERATIONS REVIEW

MANUFACTURING

KEY DEVELOPMENTS

RM5 MILLION
cost savings initiatives

COMPLETION OF SAP S/4HANA IMPLEMENTATION
at all local manufacturing sites

10 PRODUCTS
newly registered

> 30 PRODUCTS
Halal certified

Operations Review

With unwavering focus in providing a variety of high quality products, the Manufacturing Division posted a profit of RM61 million.

DOMESTIC OPERATIONS

Strict compliance to Quality Systems has made Pharmaniaga the trusted supplier of pharmaceutical products to the Malaysian government and the private sector, as well as the preferred contract manufacturing partner to multinational companies.

We are conscious of the need to continuously improve our capabilities. Guided by our motto *Passion for Patients*, Pharmaniaga ensures continuity of product supply to our clientele. We have successfully met client expectations while making sure operations at our manufacturing plants are compliant at all times. These resulted in our solid performance for the year.

We remain committed to creating lean operations within the Division, and this includes ongoing cost optimisation efforts. Continued initiatives to sustain profitability through lean operations and cost optimisation yielded cost savings of RM5 million across our manufacturing operations, despite the challenging operating environment.

Meanwhile, we bolstered our *Do It Right Always* campaign to create a culture of compliance within our operations. Enhancements to our quality systems and a steadfast commitment to meeting regulations including current Good Manufacturing Practice (cGMP) have enabled us to continuously meet all necessary requirements.

We marked a significant milestone in operational excellence with the successful completion of the SAP S/4HANA (High Performance Analytic Appliance) software implementation across all of our Malaysian manufacturing sites.

The best in class SAP S/4HANA system is aimed at helping Pharmaniaga enhance efficiency and productivity by streamlining the way in which production orders, quality management, delivery and product costing are managed. The new system simplifies the information technology process by deploying one platform for all sites. Integration across the enterprise resource planning processes, including sales, production, accounting and finance, allows for efficiency in flow of information.

We continued efforts to establish Pharmaniaga in the European Union and took a leap forward with the successful registration of two products. We are confident that these products will be able to reach a wide consumer segment with the selection of the right distributors.

As of 2018, we have marketed our Bio Collagen skin product range which consists of Bio Coll-Skin Wet Skin, Bio Coll-Skin Wet Skin (Meshed) and Bio Coll-Skin Dry Skin locally. Categorised under Advanced Wound Care Management, these products are used for the treatment of non-infected wounds.

Activities to market our products were conducted via the Continuing Medical Education programme which targets medical professionals from government and private hospitals, as well as through participation via exhibition booths at various conferences and exhibitions held nationwide.

WE ARE TARGETING FOR ALL OUR MANUFACTURING FACILITIES TO BE SYARIAH COMPLIANT AS WELL AS TO OBTAIN HALAL CERTIFICATION FOR AN ADDITIONAL 45 PRODUCTS NEXT YEAR

Malaysia has the highest rate of diabetes in Asia and one of the highest in the world, as well as the highest prevalence of obesity in South East Asia. To support the country's fight against these debilitating diseases and as part of our long-term plan to diversify our business streams, we introduced the natural sweetener, SweetRoyale Stevia. It is now an anchor product for our community pharmacies and has been widely marketed throughout Malaysia via numerous marketing channels, primarily online platforms. Sales of SweetRoyale Stevia have shown an increasing trend since its launch, and we hope our product will help Malaysians to reduce sugar consumption, hence decreasing the risks of diabetes and obesity.

RESEARCH AND DEVELOPMENT

Research and development (R&D) is the heart of our focus on technological innovation, and sets us apart in the ever-competitive pharmaceutical industry. Our commitment to R&D enables us to continuously provide quality affordable solutions to some of the most pressing medical issues in Malaysia and the region, as well as add value to local pharmaceutical resources.

We also expanded our product range to include ten new registered products in 2018. To date, we have developed close to 70 bioequivalent products. In 2018, more product registration dossiers were submitted to the National Pharmaceutical Regulatory Agency for approval.

To accelerate our product development timelines, we have engaged the services of two international contract research organisations. Their work has been progressing in accordance to the established milestones.

Becoming the premier 'Global Halal Pharmaceutical Provider' is another thrust of our growth strategy. To this end, five of our manufacturing facilities in Malaysia are Syariah compliant and we have also successfully received Halal certification for more than 30 products in 2018. We have set our sights on capturing the global demand for Halal-certified pharmaceutical products, and is targeting for all of our manufacturing facilities to be Syariah compliant as well as to obtain Halal certification for an additional 45 products next year.

Our foray into the new therapeutic segments of oncology and vaccines is in line with the expansion strategy. We have engaged a regional partner to collaborate in the trading and technology transfer of selected oncology products, and are on track to finalise the product registration exercise. Construction work of a new oncology plant is expected to begin in 2019.

We have identified a reputable vaccine research and development organisation, as our partner to assist us with vaccine production know-how.

Our R&D initiatives also leveraged on the efficacy of traditional local herbs. We made positive progress in 2018 for our phytomedicine projects, Kacip Fatimah and Patawali.

OPERATIONS REVIEW

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LOGISTICS & DISTRIBUTION

KEY DEVELOPMENTS

SECURED AN EQUIPPING PROJECT
for a teaching hospital in Sabah

CUSTOMER CONTACT CENTRE
ISO 18295-1 : 2017

CLOSE TO 300 ROYALEPHARMA ALLIANCE
members nationwide

18 PRODUCTS
newly registered

Operations Review

The Logistics and Distribution Division, which is responsible for the seamless delivery of pharmaceutical products to customers in the concession and private sectors, ended the year on a positive note, achieved a profit of RM12 million compared with RM4 million in the previous year. Revenue stood at RM1.7 billion, a jump of 6.2% from the previous year's RM1.6 billion.

DOMESTIC BUSINESS OPERATIONS

The supply and distribution of products under the Approved Products Purchase List (APPL), based on our Concession Agreement with the Ministry of Health (MOH) and hospitals under the Ministry of Education (MOE), remain the core driver of growth for the Division. Sales of our APPL products to MOH grew by 9% in 2018 to RM1.2 billion, compared with RM1.1 billion achieved in actual sales for the same segment in 2017.

The 2017-2019 APPL Product Review also included 136 new products, expanding the range of APPL products by 20% to almost 750 products.

We expanded our reach beyond MOH and MOE in the distribution of products under the APPL. Currently, we also serve the Ministry of Home Affairs and Institut Jantung Negara, as well as received and fulfilled orders for selected APPL products from the Ministry of Defence and Lembaga Tabung Haji.

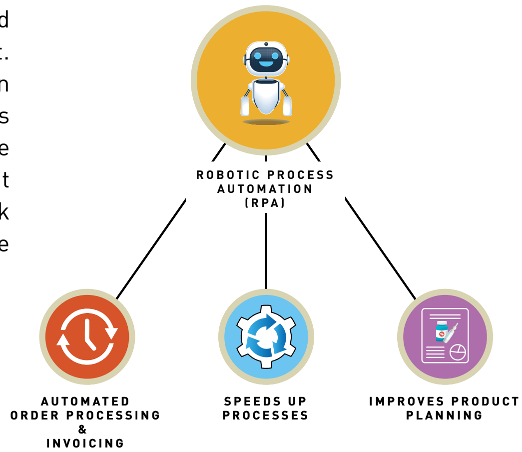
In 2018, we sustained the exceptional service levels that have been our hallmark in previous years. We received and fulfilled more than 134,000 Local Purchase Orders worth RM1.2 billion from MOH and MOE health facilities across the nation. An upgrading of the Government's e-procurement system, ePerolehan during the year presented some teething problems and impacted the order processing rate, but we still managed to deliver 98% of orders throughout Malaysia. We managed to overcome these issues by using the Robotics Process Automation (RPA) technology, focusing on order processing and invoicing, interfacing to the ePerolehan system.

This automation that combines Artificial Intelligence and machine learning capabilities have sped up the processes that can now run 24 hours, 7 days a week.

We have been using Business Intelligence tool to ease our product planning. Trends and patterns are identified to improve demand forecast and planning of each individual product. Stock holding in particular, has shown significant improvement over the years where optimum level of stocks are kept to ensure on time order fulfilment besides complying to the buffer stock requirements as per the Performance Standard set by MOH.

To mitigate potential delays through the ePerolehan system, we worked closely with MOH and ePerolehan technical teams to monitor orders, timely fulfilment and payment clearance.

The recent 2017-2019 APPL Product Review resulted in transitional issues related to stock management and supply lead times, but we overcome these challenges through consistent engagement with all our contract suppliers, particularly the new ones, to help them monitor and ensure buffer stock levels are maintained as required by MOH.



With efficient logistics and delivery as our core competency, and ability to comply with the Goods Distribution Practice (GDP) and Good Distribution Practice for Medical Devices (GDPMD) requirements as our competitive advantage, Pharmaniaga is poised to reap the benefits of rapid growth in the pharmaceutical industry and the increased regional trade of pharmaceutical goods.

Due to the increasing amount of drug deliveries that now require compliance with the GDP and GDPMD, Pharmaniaga has invested in upgrading of our storage facilities and logistics network to meet the growth in demand for such services. We have converted one of our warehouses into an air-conditioned temperature-controlled facility and invested in refrigerated trucks to ensure temperatures are maintained below 25°C for drugs deliveries to customers.

While cold chain delivery which requires temperature control between 2°C to 8°C is not an issue in Peninsular Malaysia, the Company needs to cope with unique challenges in Sabah and Sarawak. Out of more than 1,700 hospitals and clinics in Malaysia, 200 clinics are located in remote areas, and only 75 sites can be reached via river. True to our motto *Passion for Patients,* Pharmaniaga incurred significant costs to ensure full compliance to the GDP requirements to deliver drugs to these remote areas.

Our network efficiencies and improved capacity have enabled Pharmaniaga to enhance delivery lead time. Concurrently, we recognised that capital investments, warehouse footprint and order processing systems are only as good as the people who deliver these services.

At Pharmaniaga, we believe that nurturing the right corporate culture, as embodied by our *Do It Right Always (DIRA)* organisational culture, is fundamental in growing our business. As part of engagement activities with our transporters, *Kempen Sedia Membantu* was successfully implemented at all sites during the year. This campaign, aligned to our DIRA values enabled us to further cultivate customer-oriented culture amongst our transporters.

OUR NETWORK EFFICIENCIES AND IMPROVED CAPACITY HAVE ENABLED PHARMANIAGA TO ENHANCE DELIVERY LEAD TIME

The Customer Care Department successfully underwent accreditation for the Customer Contact Centre ISO 18295-1 : 2017. This established Pharmaniaga as the first pharmaceutical company in Malaysia to receive the certification which equips our Customer Care Department with a framework to provide clientele with services that continuously meet or exceed their needs. It is part of our drive towards continuous improvement and demonstrates our proactive approach to adopt best practices within the Group.

Pharmaniaga's strategic pillar for our logistics and distribution business is a two-pronged approach i.e. sustain and increase profitability in its concession business, and at the same time accelerate business growth by expanding our services into the private sector.

Our generic pharmaceutical products performed well during the year, recording a strong three-year compounded annual growth rate of 3.8%. Despite heightened competition in this segment, we successfully maintained our lead in the market. As a result of our rigorous and strategic marketing initiatives, we captured at least 30% share for all major generic brands marketed. Our leading products such as Zithrolide, Iqnyde and Aspira have become household names and commands an average market share of almost 65% on top of the strong presence of at least eight competitors.

Our marketing efforts propelled growth for key therapeutic areas such as Anti-Infectives, Respiratory and Cardiovascular. Meanwhile, our hospital-specific injectable range from our European Union accredited plant and vaccine segment launches are poised to contribute to our bottom line in the long-term.

Tapping into the bright prospects in the medical devices industry, we saw solid revenue growth for medical products and services. This was primarily attributable to hospital equipping projects and stronger consumable sales.

Our ongoing partnerships with leading global brands showcase Pharmaniaga's well established reputation and proven track record in developing high quality medical devices products, for both public and private segments.

We secured an equipping project with a teaching hospital in Sabah which is set to be an anchor client for our medical products and services business over the next five years. We are also well on track to benefit from existing projects such as Quantum Medical Systems, Kuala Lumpur Women and Children Hospital, PERKESO and the Needle Syringe Exchange Programme.

Our network of community pharmacies under the RoyalePharma brand has grown from strength to strength since the opening of its first outlet in 2013. There are currently six RoyalePharma outlets, complemented by extensive digital marketing efforts, with products now available on various online platforms such as www.royalepharma.com, Lazada, Carousell, Shopee and 11Street.

To further maximise brand presence and expand its business reach, RoyalePharma leveraged on social media platforms such as Instagram and Facebook. These platforms provide a quick and easy way to reach a wider audience. During the year, we saw RoyalePharma products promoted on television via strategic product placement activities.

Apart from our own outlets, RoyalePharma also collaborates with independent pharmacies under the RoyalePharma Alliance Programme. Alliance members have access to a wider range of products with better economies of scale, including the opportunity to enjoy various benefits to be more competitive in the market.

From over 130 members in 2017, RoyalePharma expanded its Alliance network to include almost 300 members throughout Malaysia in 2018. The larger reach of strategic partnerships was made possible by improved utilisation of capacity from Pharmaniaga's warehouses.

There has been a fundamental shift in the pharmaceutical supply industry, where the market is expanding, but customers' expectations of products and services have changed. The investments in our infrastructure and range of services will ensure Pharmaniaga stays ahead of the curve. Whether it is deliveries to hospitals, clinics, pharmacies, offices or homes, Pharmaniaga is constantly looking for ways to optimise its services, and a bigger warehouse footprint, faster service and improved technology are all necessities that will bring us to the next level.

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INDONESIA OPERATIONS

KEY DEVELOPMENTS

STRONGER LOGISTICS NET SALES
with 13% growth (Indonesian Rupiah)

MPI IS THE PRIMARY DISTRIBUTOR
of Errita's products

11 PRODUCTS
newly registered

Expanding Pharmaniaga's portfolio of products and increasing our presence in global markets are part of our blueprint to maintain the Group's growth trajectory.

Our strategy of creating value beyond Malaysian shores is most visible in our Indonesian operations. We are confident that our Indonesian businesses, namely PT Millennium Pharmacon International Tbk (MPI), our logistics and distribution arm, and PT Errita Pharma (Errita), our manufacturing plant, will perform well and contribute to the Group's earnings.

LOGISTICS

Our Indonesian listed subsidiary, MPI delivered stronger net sales of IDR2.38 trillion reflecting a significant 13% increase against last year. This was primarily achieved via improved sales of ethical and medical disposable products, which saw strong growth rates of 18% and 41% respectively. The ethical products category contributed 74% of total sales, while over the counter products and medical devices contributed 8% and 18% respectively.

We expanded our portfolio of products in Indonesia by introducing Citrex Gummy Vitamin C and Gengigel, both of which were well received by the market. In a significant milestone, Gengigel is the first patent product launched by MPI. To amplify awareness, the launch event comprised a keynote lecture presented by a well-known speaker from the United Kingdom, with local key opinion leaders and other participants from the dental industry. We also took part in several international and domestic conferences and roundtable discussions, along with conducting product awareness seminars for the dental faculties of local universities across the country. These activities enabled us to increase product visibility and accelerate product penetration in the market.

Apart from these new products, we have several products in the pipeline for registration, including Bio Collagen, SweetRoyale Stevia, Perozin and Aftamed, among others.

With a total of 32 branches throughout the nation, MPI continues to cater to the needs of its clientele, namely pharmacies, government hospitals, private hospitals and wholesalers. During the year, MPI also became the primary distributor for Errita's products throughout Indonesia.

In addition, we established a dedicated marketing team to further boost sales. This strategic move contributed to MPI's higher sales in 2018.

We recognise the need to optimise efficiency and productivity in every aspect of our operations in Indonesia. Continuous improvements in 2018 to enhance service levels across our operations included investments in technology.

In line with this, we adopted new information technology processes to further enhance operational efficiencies. This comprised the introduction of web sales and inventory reports for principals, a mobile collection system and mobile inventory update, a help desk system and dashboard for management and operations. With a view to reengineer certain operational processes, MPI launched two high-impact projects during the year.

In tandem, conscious of the need to embrace Industry 4.0, we are exploring Robotic Process Automation, Artificial Intelligence-driven solutions, mobile sales systems, and e-Human Resource and e-commerce platforms.

MANUFACTURING

Indonesia is a strong emerging market for high quality branded generic pharmaceuticals and we are building a reputation as a reliable and trustworthy manufacturer of generic products relevant to this market.

Errita maintained its strong performance in 2018, one year after its positive turnaround in 2017. The Company adopted a revised marketing mechanism and introduced a range of new products, resulting in a sales increase of almost 40%. We successfully commercialised nine products in Indonesia. Errita submitted close to 20 products to Indonesia's local product authority, *Badan Pengawas Obat dan Makanan* for approval.

In 2018, we invested in the upgrade of the production capacity at our Indonesian plant. This included machinery to improve automation of the strip packing and packaging process, which is expected to enhance manufacturing efficiencies.

Pharmaniaga is optimistic of further growth in Indonesia, capitalising on the country's population growth, increasing affluence and rising demand for better, affordable and quality healthcare products.

CONTINUOUS IMPROVEMENTS IN 2018 TO ENHANCE SERVICE LEVELS ACROSS OUR OPERATIONS INCLUDED INVESTMENTS IN TECHNOLOGY

CORPORATE VALUES

AT PHARMANIAGA

OUR MOTTO OF *PASSION FOR PATIENTS* REFLECTS THE VALUES WE HOLD DEAR AT PHARMANIAGA AND DEFINES OUR CORPORATE UNDERTAKINGS. WE STRIVE TO IMPROVE ACCESS TO AFFORDABLE AND QUALITY HEALTHCARE IN ORDER TO CREATE HEALTHIER COMMUNITIES WHILE DRIVING BUSINESS RESILIENCE

CORRUPTION-FREE PLEDGE

As a firm believer and supporter of fighting corruption at all levels within the organisation, Pharmaniaga signed the Malaysian Anti-Corruption Commission's Corruption-Free Pledge on 8 January 2018, organised by Boustead Holdings. The ceremony was held at Royale Chulan Kuala Lumpur.

TABUNG PAHLAWAN

In appreciation of our soldiers' bravery in defending our country, Pharmaniaga donated RM100,000 to the Tabung Pahlawan. En. Mohamed Iqbal Abdul Rahman, Chief Operating Officer of Pharmaniaga presented the contribution to YB Tuan Haji Mohamad Sabu, Minister of Defence, Malaysia.

ZAKAT CONTRIBUTION TO PUSAT ZAKAT NEGERI SEMBILAN

Pharmaniaga Logistics Sdn Bhd, presented a business zakat contribution of RM250,000 to Pusat Zakat Negeri Sembilan at the *Majlis Berbuka Puasa & Penyerahan Zakat* at Istana Seri Menanti, Negeri Sembilan.

ZAKAT CONTRIBUTION TO LEMBAGA ZAKAT SELANGOR

Pharmaniaga Berhad presented a business zakat contribution of RM250,000 to Lembaga Zakat Selangor at the *Majlis Iftar & Penyerahan Zakat Perniagaan*, in Shah Alam, Selangor.

DO IT RIGHT WEEK

In line with promoting a compliance culture to all its employees, Pharmaniaga organised *Do It Right* Week. Throughout the week, all sites carried out various fun and exciting compliance culture related activities.

#PERANGIHFMD CAMPAIGN

To help curb the Hand, Foot and Mouth disease outbreak, Pharmaniaga took a proactive measure by launching the *#PerangiHFMD* Campaign. During the campaign, we provided free hand sanitisers to registered kindergartens and primary schools. Almost 12,000 bottles were given away during the campaign period.

WORLD PHARMACISTS DAY

In conjunction with World Pharmacists Day, Pharmaniaga mobilised its *Skuad Operasi Sihat* volunteers and provided free health checks for the general public at MyTown Shopping Centre in Cheras.

QURBAN AT PHARMANIAGA

Pharmaniaga celebrated *Hari Raya Aidiladha* with orphans from various orphanages within Klang Valley. 14 cows were slaughtered for this auspicious occasion.

RIANG RIA AIDILFITRI

Pharmaniaga celebrated *Hari Raya Aidilfitri* with 155 underprivileged students and teachers from Sekolah Bimbingan Jalinan Kasih. The celebration was held at the Royale Chulan Hotel, Kuala Lumpur. Among the special guests were YBhg. Datuk Aznil Hj Nawawi and members of the Alumni Association of Princess Road School.

KIDZANIA KUALA LUMPUR WITH SK LEMOI

The Orang Asli kids of SK Lemoi, Cameron Highlands, Pahang had an enjoyable trip at KidZania Kuala Lumpur, sponsored by the Group. The educational trip provided the children with various career-role plays.

HERO RAMADAN

In appreciation of the unsung heroes of the Trauma and Emergency Unit staff of eight hospitals in Klang Valley, the Group provided break-fast meals during the month of Ramadhan.

NATIONAL DAY CELEBRATION

As an expression of patriotism, Pharmaniaga sent over 40 of our employees to take part in the National Day Parade in Putrajaya. With the theme *Sayangi Malaysiaku*, it was a historic moment as we celebrated our nation's 61 years of independence.

GLC DISASTER RESPONSE NETWORK (GDRN) SWIFT WATER SAFETY AND HUMANITARIAN RESPONSE TRAINING

Pharmaniaga participated in the GLC GDRN Swift Water Safety and Humanitarian Response training organised by Telekom Malaysia Berhad in October at Kem Murni, Gopeng, Perak. Attended by 30 participants from various companies, the four-day training was aimed at strengthening the participants' humanitarian capabilities and minimising the loss of life and damage to properties and the environment during a disaster. Among certified trainers and speakers were from the National Disaster Management Agency (NADMA), Ministry of Defense and United Nations Humanitarian Response Depot (UNHRD).

SOS AT THE EARTHQUAKE AND TSUNAMI DISASTER AWARENESS PROGRAMME FOR SCHOOLS AND COMMUNITIES 2018

Skuad Operasi Sihat (SOS) volunteers conducted basic health checks for the public at the 'Earthquake and Tsunami Disaster Awareness Programme for Schools and Communities 2018', organised by NADMA at SMK Kota Kuala Muda, Kedah. This programme aimed to increase response capacity and educate the local community in preparation for earthquake and tsunami disasters. The ceremony was officiated by YAB Dato' Seri Dr Wan Azizah Wan Ismail, Deputy Prime Minister of Malaysia.

JALINAN KASIH SYAWAL

The Group channelled contributions to the Orang Asli communities of Ulu Melaka, Melaka and Jelebu, Negeri Sembilan in conjunction with the *Jalinan Kasih Syawal* programme. Held in collaboration with the Departments of Orang Asli Development of Melaka and Negeri Sembilan, the programme benefitted more than 20 Orang Asli families.

SINAR AIDILFITRI CELEBRATION

Pharmaniaga visited and extended support to two elderly care centres, namely; *Pusat Jagaan Siti Noraini* in Kajang and *Rumah Pertubuhan Kebajikan Penyayang Hani* in Bangi in conjuction with *Aidilfitri* celebration. We contributed cash, food supplies and clothes to the residents of the two centres.

EXAMINATIONS MOTIVATIONAL SEMINAR

The Examinations Motivational Seminar was organised at Setia City Convention Center for the children of Pharmaniaga employees. This annual program is held to motivate and prepare the children for public examinations such as UPSR, PT3 and SPM. Also sharing experience and knowledge at the event was Encik Kamarul Bahrin Haron, Deputy Editor-in-Chief and Presenter of Astro AWANI Current Affairs.

STUDENT OUTREACH PROGRAMME

We embarked on a student outreach programme to encourage young bright minds to consider careers in the pharmaceutical sector. Plant tours were organised at Pharmaniaga Manufacturing Berhad in Bangi for schoolchildren. They were exposed to the processes involved in manufacturing drugs and also briefed on the different career prospects available within the industry.

SAHABAT KORPORAT TH

As a Sahabat Korporat TH, Pharmaniaga contributed several medical devices to further equip Tabung Haji Hospitals during the Hajj season.

For this contribution, Pn. Yang Fairuz Abdul Aziz, the Corporate Services Director of Pharmaniaga received a token of appreciation from YBhg Dato' Sri Zukri Samat, TH Group Managing Director and Chief Executive Officer.

PHARMAGREEN CORPORATE RESPONSIBILITY AT TAMAN EKO RIMBA KANCHING, RAWANG

Approximately 60 volunteers helped to clean *Taman Eko Rimba* Kanching, Rawang, Selangor as part of our ongoing PharmaGREEN programme.

Activities included garbage collection and painting of nearby bridges and handrails.

HARI MALAYSIA 2018

Employees celebrated Hari Malaysia by participating in various activities that reflect the uniqueness and diversity of our people.

DENTISTRY FOR THE NEEDY

Pharmaniaga donated a mobile dental chair in support of Dentistry for the Needy, an organisation where dentists offer free dental services to the poor and underprivileged.

FLOOD AID RELIEF PAHANG

Pharmaniaga donated relief items to the flood victims in Pahang together with the GDRN. We provided logistics support, emergency kits, children's kits, vitamins and medicines.

FITNESS INSTRUCTOR PROGRAMME

Pharmaniaga participated in the Fitness Instructor Programme organised by the Ministry of Health and Ministry of Youth and Sports in Port Dickson. The objective of this four-day programme is to train employees to become certified fitness instructors.

NIOSH MOTORCYCLING SAFETY COURSE

Employees participated in the Motorcycling Safety Course organised by the National Institute of Occupational Safety and Health (NIOSH). The two-day course emphasised on the safety of riders and proper riding techniques.

ACADEMIC ACHIEVEMENT AWARDS

Pharmaniaga organised the Academic Achievement Awards to celebrate its employees' children who achieved excellent results in the UPSR, UPSRA, PT3, SPM and STPM.

DARI DAPUR PHARMANIAGA

Pharmaniaga organised a cooking competition where employees were given the opportunity to showcase their cooking skills by using SweetRoyale Stevia, a natural sweetener.

A total of 30 recipes were shortlisted, which include cakes, pastries, biscuits, puddings and beverages. The best 10 recipes were selected as winners according to categories.

CERAMAH AGAMA WITH IMAM MUDA ASYRAF

Maal Hijrah was celebrated with religious and motivational talk by esteemed speaker, Imam Muda Asyraf.

SUSTAINABILITY DAY CELEBRATION

Pharmaniaga celebrated our very own Sustainability Day where we are reminded of the importance of caring for the environment.

All of our sites located nationwide simultaneously celebrated and engaged in various sustainability related activities such as Choose To Reuse Campaign, Xchange Recycling Campaign, SecondChance project, planting of herbs and aromatic plants at our eco-garden and the distribution of metal straws to all employees.

SECONDCHANCE PROJECT

SecondChance is an impactful project where we partnered with MyPride, a Human Development Programme under the Malaysia Prisons Department. For this project, inmates produce recycled bags from used event banners.

BACK-TO-SCHOOL PROGRAMME WITH RUKTAA

As part of Pharmaniaga's Back-to-School programme, 40 children from Rumah Kanak-Kanak Tengku Ampuan Afzan (RUKTAA) Raub, Pahang received school supplies and uniforms to help prepare them for the new schooling session.

LAUNCH OF CITREX GUMMY

Citrex Gummy was launched by PT Millennium Pharmacon International Tbk at Metland Mall Cleungsi, Bekasi Jawa Barat, Indonesia.

EKSPLORASI TANAH AINA

In promoting a healthy lifestyle among our workforce, a total of 15 employees from our site in Seri Iskandar, Perak participated in the *Eksplorasi Tanah Aina* held at Bentong, Pahang. Activities such as jungle trekking, flying fox, morning and night walks were conducted to enable employees to experience the real beauty of nature and to marvel at the beautiful flora and fauna.

PELATIHAN DAN SERTIFIKASI K3 PETUGAS PERAN KEBAKARAN

In line with the requirements of KEPMENAKER No. 186/MEN/199 regarding Fire Management in the workplace, 26 employees of PT Errita Pharma underwent the *Pelatihan dan Sertifikasi K3 Petugas Peran Kebakaran* training session. A fire response team was successfully established as an outcome of this training.

TSUNAMI AID RELIEF IN PALU, INDONESIA

The 7.5 magnitude earthquake, followed by a tsunami hit the Palu community resulted in massive destruction. Thousands lost their homes, with food, water and medical supplies cut off. In the time of need, our team at PT Millennium Pharmacon International Tbk was there to provide medical assistance.

PROGRAM JOM KURUS #2

A total of 25 employees participated in the *Jom Kurus* #2 at our site in Sungai Petani, Kedah. The purpose of the programme is to guide participants on proper diet management and how to achieve the ideal weight in 9 weeks. Participants also learned about best practices in order to achieve a healthier lifestyle.

FUTSAL TOURNAMENT

A futsal tournament was organised amongst employees at our site in Sungai Petani, Kedah to encourage greater work-life balance. The sporting event enhanced their motivation and fostered greater teamwork spirit.

Corporate Governance Overview Statement

The Group is headed by an experienced and effective Board

The Board has the overall responsibility in leading and determining the Group's strategic direction

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.

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 2018 except:

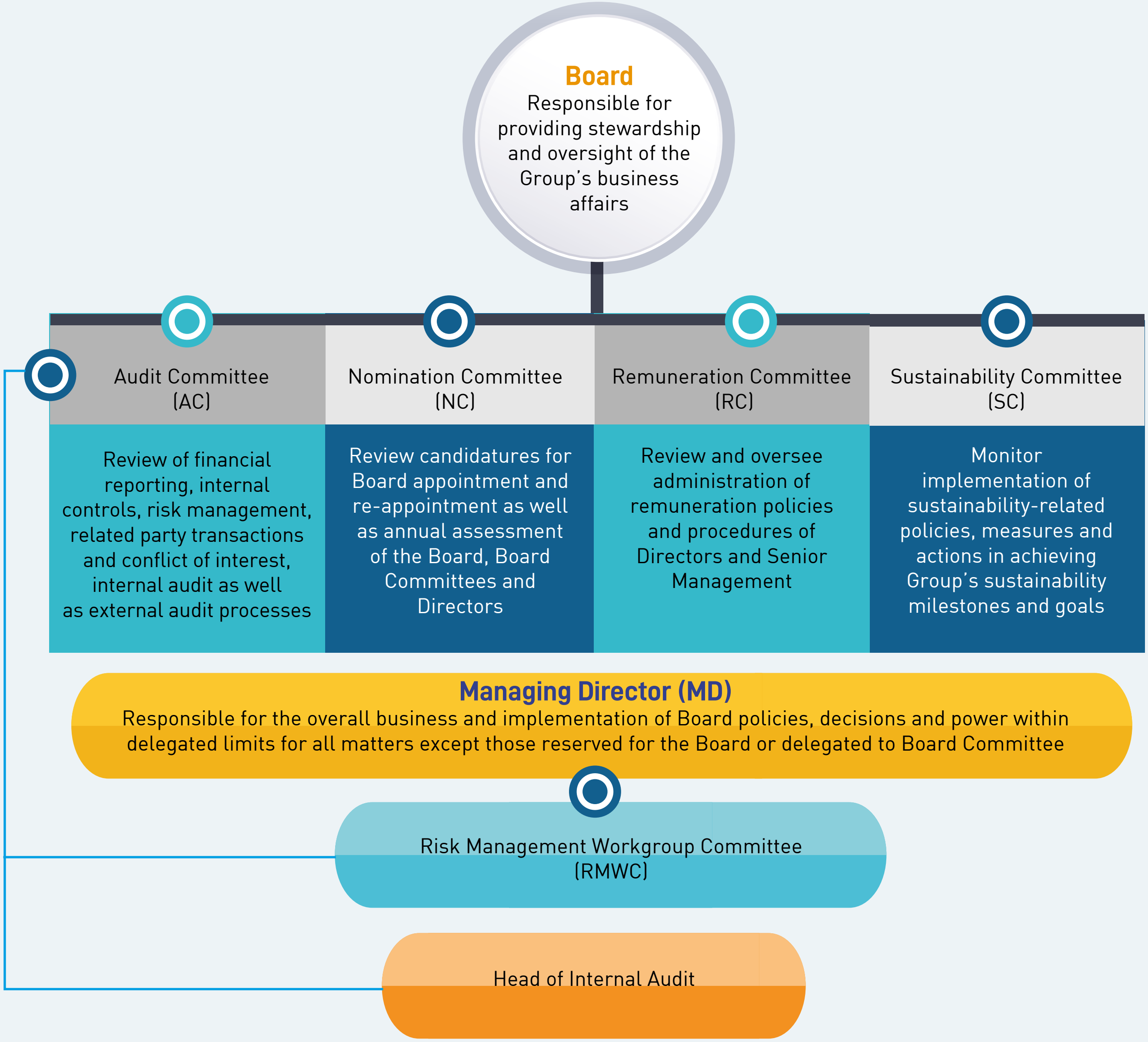
- Practice 4.5 Gender Diversity Policy
- Practice 6.1 Remuneration Policy for Directors and Senior Management
- Practice 7.2 Disclosure of the top five Senior Management personnel's remuneration on a named basis in bands of RM50,000
- Practice 12.3 Remote shareholders' participation

In line with the latitude accorded in the application mechanism of MCCG, the Group has provided explanations for the departures from the said practices, supplemented with a description on the alternative measures that seek to achieve the Intended Outcome of the departed Practices, measures that the Group 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.



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. However, it should be noted that the Board retains collective oversight over the Board Committees at all times. 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 is made available on Pharmaniaga's website and was last reviewed on 27 February 2018.

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 the 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 2018 is outlined below:

Director	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	1/1	
Daniel Ebinesan *	4/4	4/4			3/3
Senior Independent Non-Executive Director					
Mohd Suffian Haji Haron	4/4	4/4	1/1	1/1	3/3
Independent Non-Executive Directors					
Izzat Othman	4/4	4/4	1/1	1/1	
Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired)	3/4	3/4			3/3

Board/Board Committee Chairman   Member

Note :

* Board Member until 31 December 2018

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 advices 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. The Code of Ethics and Conduct and the Whistleblowing Policy have been put in place to promote ethical culture and allow legitimate ethical concerns to be escalated in confidence without risk of reprisal. The Code of Ethics and Conduct and Whistleblowing Policy are reviewed periodically by the Board and are published on Pharmaniaga's website.

BOARD COMPOSITION

During the year under review, the Board of Directors comprised six members, three of which were Independent Non-Executive Directors. However, Tan Sri Dato' Seri Lodin Wok Kamaruddin and Mr. Daniel Ebinesan resigned from the Board on 31 December 2018. Subsequent to that, Encik Fahmy Ismail was appointed to the Board on 1 January 2019.

With the new appointment, there are five Directors on the Board, three of which are independent. The Company is headed by a female MD.

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. For 2018, an independent consultant was engaged to assist the NC in conducting the Board Effectiveness Evaluation (BEE) exercise. 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 Annual General Meeting (AGM).

In reviewing the independence of Independent Directors, the NC and the 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.

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	1,020,000	382,500	232,125	37,200	-	1,701,825
Non-Executive Directors								
Tan Sri Dato' Seri Lodin Wok Kamaruddin*	175,000	175,000	-	-	-	-	5,000	180,000
Mohd Suffian Haji Haron	150,000	150,000	-	-	-	-	10,495	160,495
Daniel Ebinesan*	110,000	110,000	-	-	-	-	8,250	118,250
Izzat Othman	130,000	290,150	-	-	-	-	17,750	307,900
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	110,000	110,000	-	-	-	-	6,000	116,000
Total	675,000	865,150	1,020,000	382,500	232,125	37,200	47,495	2,584,470

* Board Member until 31 December 2018

Corporate Governance Overview Statement

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 on Risk Management & 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:

Chief Financial Officer
Norai'ni Mohamed Ali
Tel :+603-3342 9999 / +6017-333 9908
E-mail :noraini.aliani@pharmaniaga.com

NOTICE OF AGM

Date : 23 April 2019
Venue : Royale Chulan Damansara,
2A, Jalan PJU 7/3,
Mutiara Damansara,
47810 Petaling Jaya, Selangor

- 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 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.

FOCUS AREAS ON CORPORATE GOVERNANCE

Corporate governance continued to be imperative for the Group in the year 2018 against the backdrop of regulatory changes in the domestic corporate governance realm and a relatively challenging economic environment.

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 2018 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. As recommended by MCCG, during the year under review, half of the Board are Independent Directors.

Board Effectiveness Evaluation

MCCG stipulates that a formal and objective annual evaluation should be conducted to determine the effectiveness of the Board. To achieve this, during the year under review the Board engaged an external consultant to facilitate a BEE exercise. The evaluation covered three key areas i.e. Board structure, Board responsibilities and Board operations. Questionnaires were circulated as well as individual interviews held with the Directors and key Senior Management to gather significant insight and feedback. The Board will use the recommendations highlighted in the BEE report as part of an ongoing process to enhance Board effectiveness and efficiency.

Gender Diversity Policy

During the year, the Board undertook to formulate the Gender Diversity Policy, aimed to encourage gender diversity on the Board, with emphasis on merits based selection. Although no set targets have been determined, the Board is mindful that any gender representation shall be for the interest of the Company.

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 NC 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 attended by the Board members during the year under review are outlined below. Unfortunately, not all Board members were able to take opportunity on the professional development training offered. The NC noted that Mr Daniel Ebinesan who resigned on 31 December 2018, was not able to attend any programmes during the year due to exceptional personal circumstances.

Name	Programme Title and Organiser	Date
Non-Independent Non-Executive Chairman		
Tan Sri Dato' Seri Lodin Wok Kamaruddin (Board Member until 31 December 2018)	• World Capital Markets Symposium Kuala Lumpur – Renaissance of Capitalism : Market for Growth	6 February 2018
	• Win the Innovation Race: Unlocking the Creative Power of Asians by Professor Roy Chua	6 June 2018
	• Malaysian Financial Reporting Standards Briefing by Ernst & Young	7 August 2018
	• Power Break Session by Employees Provident Fund in conjuction with International Social Security Conference Themed a Better Tomorrow	8 August 2018
	• Malaysian Economic Summit "Whiter Economic Growth, Towards Sustainable Productivity"	16 October 2018
	• FIDE Effective Programme on "Emerging Risks, the Future Board, and Return on Compliance"	22 October 2018
	• MICG Seminar on "Rebuilding a New Malaysia"	8 November 2018
Managing Director		
Dato' Farshila Emran	• Half Day Seminar on Corporate Liability Provision – What It Is & Its Implications to Directors, Management & Those Charged with Governance	31 July 2018
	• MICG Half-day Seminar on "Introduction to Corporate Liability Provision - What it is, how will my company be affected, and what do I need to put in place by way of safeguard" by Dr. Mark Lovatt	6 September 2018
	• Khazanah Megatrends Forum 2018: On Balance - Recalibrating Markets, Firms, Society and People	8 - 9 October 2018
	• MICG Seminar on Business Transformation Challenges "Shaping High Performance Organization"	23 October 2018
	• Anti-Corruption Summit 2018 - "Good Governance and Integrity for Sustainable Business Group"	30 October 2018

Name	Programme Title and Organiser	Date
Senior Independent Non-Executive Director		
Mohd Suffian Haji Haron	• Audit Committee Institute (ACI) Breakfast Roundtable 2018	19 March 2018
	• 5th BNM-FIDE Forum and Annual Dialogue with the Deputy Governor of Bank Negara Malaysia	19 April 2018
	• MICG Seminar on Official Launch of the Pathway to a Governance Practitioner Programme	26 July 2018
	• MICG Half-day Seminar on "Introduction to Corporate Liability Provision - What it is, how will my company be affected, and what do I need to put in place by way of safeguard" by Dr. Mark Lovatt	6 September 2018
	• Global Islamic Finance Forum 2018	3 - 4 October 2018
	• Institute of Corporate Directors Malaysia PowerTalk: Effective Boards in a VUCA world	31 October 2018
	• Non-Financials: Does it Matter? by the ICLIF Leadership and Governance Centre	5 December 2018
Independent Non-Executive Directors		
Izzat Othman	• Audit Committee Institute (ACI) Breakfast Roundtable 2018	3 August 2018
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	• Seminar on Malaysian Code on Corporate Governance 2017, Regulatory Updates and Financial Statement Fraud and Misstatement 2017	24 January 2018
	• Half day Seminar on Corporate Liability Provision – What It Is & Its Implications to Directors, Management & Those Charged with Governance	31 July 2018
	• Business Foresight Forum 2018: Disruptions and Collaborations – The Rise of Capital Market Businesses 4.0	8 August 2018
	• Anti-Corruption Summit 2018 - "Good Governance and Integrity for Sustainable Business Group"	30 October 2018

Name	Programme Title and Organiser	Date
Non-Independent Non-Executive Director		
Fahmy Ismail (Appointed as Board Member on 1 January 2019)	• CFO Breakfast Talk - The New Era of Lease Accounting	26 June 2018
	• Malaysian Financial Reporting Standards Briefing by Ernst & Young	7 August 2018
	• Decoding Transaction and RPT Rules & Computation of Percentage Ratios	5 – 6 September 2018
	• MIA International Accountants Conference 2018	9 October 2018
	• Ethics and Integrity in Governance	11 October 2018

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 2020

2022

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 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 fact that the MD on Board is female, as well as the present composition of key Senior Management of the Group, close to 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 & INTERNAL CONTROL

THE GROUP IS HEADED BY AN EXPERIENCED AND EFFECTIVE BOARD. THE BOARD HAS THE OVERALL RESPONSIBILITY IN LEADING AND DETERMINING THE GROUP'S STRATEGIC DIRECTION

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 (AC) and accords with the guidelines for directors on internal control, the Statement on Risk Management & Internal Control: Guidelines for Directors of Public Listed Issuers.

THE MANAGEMENT

The Group has established an appropriate risk management infrastructure which is tailored to the specific circumstances of the Group and guided by Risk Management Framework of Boustead Holdings Berhad (BHB) (the immediate holding company of Pharmaniaga Berhad) to ensure that the Group's assets are well-protected and shareholders' value enhanced.

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 AC 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 AC to complement the Terms of Reference of the Audit Committee, the Internal Audit Charter and this Statement on Risk Management & Internal Control.

RISK CERTIFICATION

We, the undersigned of Pharmaniaga Berhad hereby certify the following for the 6 months financial period ended 31 December 2018:

(1) We hereby confirm that the company's risk profile is reviewed on a half-yearly basis.

(2) We have designated a risk officer as the point of contact in the co-ordination of the company's risk management framework.

(3) We have reviewed the financial statements, disclosure and procedures, operational controls, management efficiency, quality of assets, level of risk exposures and compliance with laws and regulations.

(4) We have reviewed the business performance as compared with the budgets on a monthly basis and explanations provided for significant variances.

(5) Based on our knowledge, the operations are in accordance with the corporate objectives and strategies as well as the policies and business directions that have been approved by the Board.

(6) Based on our knowledge, there is an established ongoing process for identifying, evaluating and managing significant risks faced by the company arising from changes in external business and economic environment. There is no major change in the financial condition and risk profile.

(7) Based on the above, we confirm that the internal controls and processes are in place, henceforth the level of risk has been minimised. [If there are exceptions, state the nature and impact of these exceptions in a separate statement.]

(8) We hereby confirm that there is no material misstatement in the financial statements and cash flows [Half-yearly and Annual] or any fraud involving management or other employees. We also hereby certify that to our knowledge, applicable laws, regulations and approved accounting standards have been complied with. [If there are exceptions, state the nature and impact of these exceptions in a separate statement.]

Dato' Farshila Emran
Managing Director

Mohamed Iqbal Abdul Rahman
Chief Operating Officer

Norai'ni Mohamed Ali
Chief Financial Officer

Datin Shamsinar Haji Shaari
Director, Manufacturing

Sharifah Fauziyah Syed Mohthar
Director, Regulatory Affairs & Customer Care

Zulhafri Razali
Director, Commercial

Abdul Malik Mohamed
Director, Logistics & Distribution

Ida Marianna Abdul Rashid
Director, Strategic Planning

Yang Fairuz Abdul Aziz
Director, Corporate Services

Sheikh Fahmi Mohamed Bamadhaj
Special Officer (Risk Officer)

Date: 21 FEBRUARY 2019

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 Risk Management Workgroup Committee (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 Head of Divisions 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 Head of Divisons 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 including continuous expansion of non-concession business and explore new business opportunities to reduce reliance on concession business;
     - Monitor the results of key performance indicators; and
     - Ensure good corporate governance.

  iii. The AC 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 2018, the RMWC met twice, on 8 May 2018 and 2 November 2018. 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 2018 and 19 November 2018. In addition, the reports were submitted to the Group Internal Auditors (GIA) 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 AC 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 AC 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 AC 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 AC maintains risk oversight for the Group.

GROUP INTERNAL AUDIT

The GIA 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. GIA carries out audit based on the plan approved by the AC 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 Group Internal Audit Charter approved by the AC. GIA operates and performs in accordance to the principles of the Charter, reports directly to the AC 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 has 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 embedding 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**
  The Regulatory Affairs and Corporate Governance Divisions establishes 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 this division 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, ISO/IEC 27001: 2013 and ISO 18295-1: 2017.

  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 AC, 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 on 19 November 2018. 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 quarterly and annual audited financial statements, which covers the company's performance, are submitted to Bursa Malaysia Securities Berhad (Bursa Malaysia) for release to shareholders and stakeholders, on timely basis. All quarterly results are reviewed and approved by the Board prior to announcement.

  The annual reports of the Company that include 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.

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 "FCIO" Balance Scorecard quadrants 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 adopt 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 employees of all 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 GIA 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 are 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, as well as updates on the Group's business directions. 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 Always* (DIRA) Campaign**

  The DIRA campaign was launched to inculcate a quality culture where each individual takes ownership of quality outcomes and always doing things right. 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 word, prevention is better than cure. The DIRA campaign aims to convey three main themes:

  - Foster and develop;
  - Monitor and measure; and
  - Improve and learn

  Throughout 2018, 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 D-Agents (working committee) to promote interactive discussion on *Do It Right* awareness;

  iii. Trainings to enhance the knowledge on internal control amongst employess;

  iv. *Do It Right* Week to promote enhance awareness on *Do It Right* campaign, to strengthen relationships and create bonding among employees in the company and to inculcate ownership in achieving quality culture; and

  v. Health 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 AC meetings before being reported to the Board. Quarterly reports to the AC track the progress towards completion of all corrective actions taken on issues highlighted by the GIA.

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 MMLR of Bursa Malaysia the external auditors have reviewed this Statement on Risk Management & Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide 3 (AAPG 3) issued by the Malaysian Institute of Accountants. AAPG 3 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 21 February 2019.

AUDIT COMMITTEE REPORT

THE BOARD OF DIRECTORS OF PHARMANIAGA BERHAD IS PLEASED TO PRESENT THE REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR 2018

MEETINGS

During the financial year 2018, the Audit Committee (AC) 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 AC meetings held during the financial year are set out below:

Audit Committee Members	Mohd Suffian Haji Haron	Daniel Ebinesan (Board Member until 31 December 2018)	Izzat Othman	Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	Fahmy Ismail (Appointed as Board Member on 1 January 2019)
Status of Directorship	Senior Independent Non-Executive Director (Chairman of the Committee)	Non-Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Independent Non-Executive Director
Independent	Yes	No	Yes	Yes	No
Meetings Attended	4/4	4/4	4/4	3/4	0/0

The Managing Director, Chief Financial Officer, Head of Group Internal Audit and other key Senior Management attended these meetings by invitation. The AC 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 key Senior Management, were held.

TERMS OF REFERENCE

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

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year 2018, the AC 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 Group including announcements, before recommending them for approval by the Board of Directors. The AC 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 AC 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 2018 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 employees 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 work for the year;
  - the results of the annual audit, their audit report for the financial year ended 31 December 2018 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 2018 in particular areas which involve significant accounting estimates and judgment:
    - 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 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 work.

- Met with the external auditors twice during the year in the absence of the Managing Director and key 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, Statement on Risk Management & Internal Control, Audit Committee Report for the financial year ended 31 December 2018 and Circular to Shareholders on Recurrent Related Party Transactions to the Board for approval for disclosures in the Annual Report.

Risk Management

The AC reviewed the overall risk profile of the Group's risks, 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 2018 and 19 November 2018 by the Risk Management Committee with the AC. In the meeting, Action Plans on Significant Risk and the updated Risk Register were presented.

INTERNAL AUDIT FUNCTION

The internal audit function of Pharmaniaga Group is carried out by GIA of Boustead Holdings Berhad. GIA 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 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 AC and the Board in maintaining an effective system of internal control, risk management and overall governance practices within the Company and 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 AC 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 AC. The coverage of auditable areas takes into consideration the strategic and operational risks, audit history and request by key Senior Management or AC that is aligned to the organisation's strategic objectives.

During the year, GIA has completed and issued nine internal audit reports based on approved annual audit plan and request from the management. The audit conducted in 2018 covered a wide range of operational areas within the Group. Among the key areas covered during the financial year are:

- Inventory Management
- Financial Management
- Procurement Management
- Community Pharmacy
- Information Technology Management
- Project 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 AC 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 36 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 2018, eight internal auditors carried out the audit in Pharmaniaga Group and the total costs incurred amounted to RM265,382 inclusive of Goods and Services Tax (GST) and Sales and Service Tax (SST). GIA continues its commitment to equip their internal auditors with adequate knowledge and proficiency. They had attended various relevant trainings and courses to enhance knowledge and proficiency as well as encouraged to take the Certified Internal Auditor (CIA) and other professional certification. As at 31 December 2018, two internal auditors had obtained CIA, whilst 12 are currently pursuing the CIA qualification.

Statement of DIRECTORS' RESPONSIBILITY FOR PREPARATION of Financial Statements

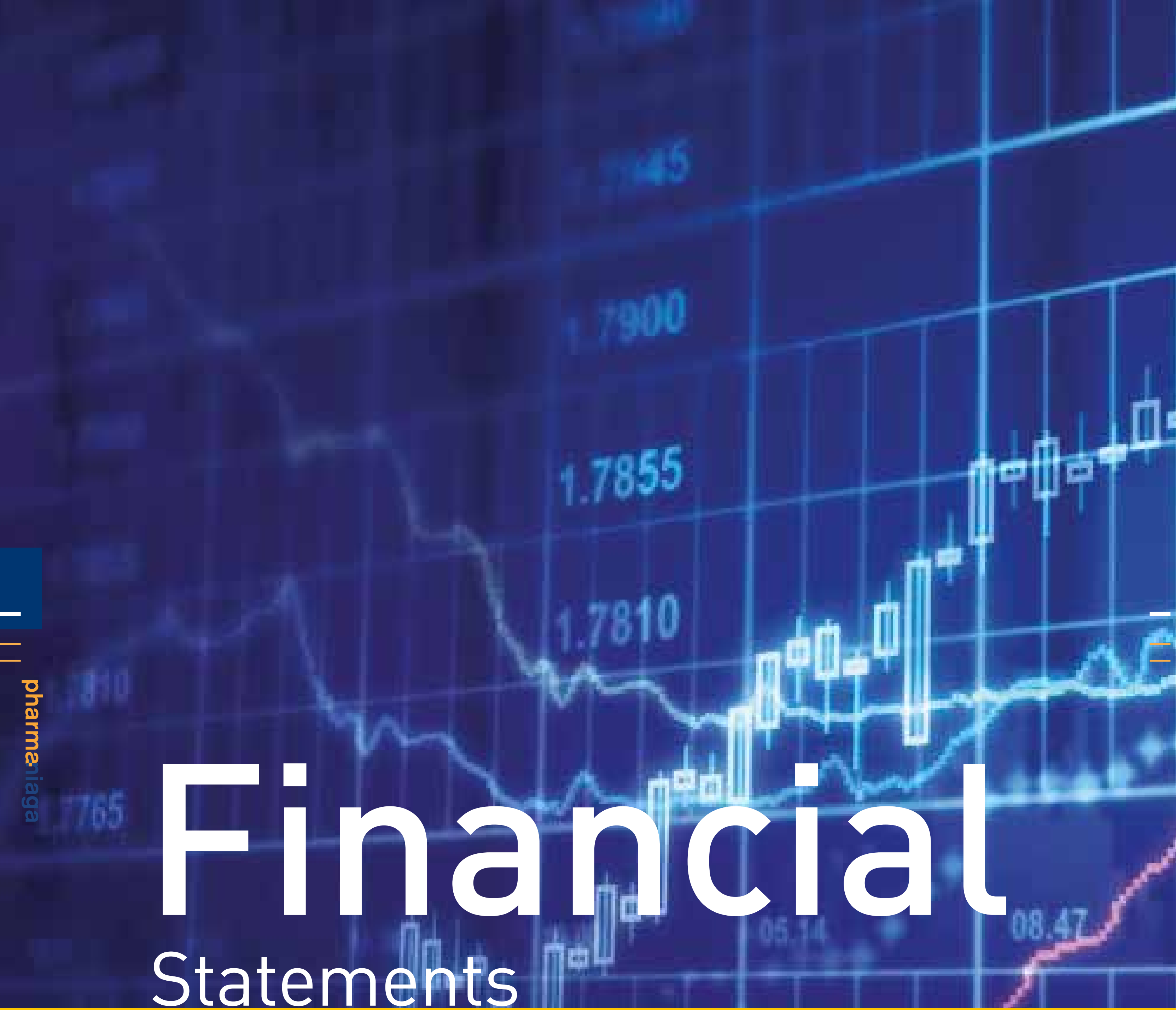
The financial statements of the Group and of the Company have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors take responsibility in ensuring that the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 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 judgments 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, detect fraud and other irregularities.

This statement has been approved by the Board of Directors on 1 March 2019.



Financial

Statements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Directors' Report

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018.

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	43,230	102,719
Attributable to:		
Owners of the parent	42,468	102,719
Non-controlling interests	762	-
	43,230	102,719

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 2018:

	Dividend Sen per share	Dividend RM'000	Payment Date
First interim single tier dividend	5.0	12,991	20 June 2018
Second interim single tier dividend	4.0	10,421	18 September 2018
Third interim single tier dividend	5.0	13,025	3 January 2019
Fourth interim single tier dividend	2.0	5,210	10 April 2019
	16.0	41,647	

On 21 February 2019, the Directors declared a fourth interim single tier dividend of 2.0 sen per share amounting to RM5,210,000 in respect of the financial year ended 31 December 2018 will be paid on 10 April 2019 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2019.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2018.

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 RM146,213,301 to RM149,401,921 through the issuance of 684,000 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 Malaysia"). The Share Scheme is governed by By-Laws approved by the Company's shareholders at the Extraordinary General Meeting held on 29 March 2016.

<u>Option Plan</u>

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 Malaysia 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 2018, 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 1.1.2018**	**Granted**	**Exercised**	**Forfeited**	**At 31.12.2018**
13 May 2016	RM5.04	15,640,000	-	-	(5,600,000)	10,040,000

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 1.1.2018	**Granted**	**Exercised**	**At 31.12.2018**
Datin Shamsinar binti H Shaari	375,000	-	-	375,000
Sharifah Fauziyah binti Syed Mohthar	375,000	-	-	375,000
Mohamed Iqbal bin Abdul Rahman	350,000	-	-	350,000
Norai'ni binti Mohamed Ali	350,000	-	-	350,000
Abdul Malik bin Mohamed	300,000	-	-	300,000
Zulhazri bin 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)

The principal features of the LTIP are as follows: (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 2018, particulars of the shares granted under the LTIP were as follows:

	Number of ordinary shares				
Date of grant	**At 1.1.2018**	**Granted**	**Vested**	**Lapsed**	**At 31.12.2018**
13 May 2016	285,300	-	(283,300)	(2,000)	-
18 May 2017	320,700	-	(160,300)	-	160,400
18 May 2018	-	721,000	(240,400)	-	480,600

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 the Eligible Employees of the Group.

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:

Dato' Farshila Emran	
Mohd Suffian Haji Haron	
Izzat Othman	
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	
Fahmy Ismail	(Appointed on 1 January 2019)
Tan Sri Dato' Seri Lodin Wok Kamaruddin	(Resigned on 31 December 2018)
Daniel Ebinesan	(Resigned on 31 December 2018)

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 bin Abdul Rahman
Norai'ni binti Mohamed Ali
Datin Shamsinar binti H Shaari
Sharifah Fauziyah binti Syed Mohthar
Abdul Malik bin Mohamed
Zulhazri bin 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
Norman bin Ismail
Azleena binti Al Jeffri (Resigned on 26 April 2018)
Ahmad Nasir bin Che Hassan (Resigned on 30 November 2018)

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 of 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)
Izzat Othman
Tan Sri Dato' Seri Lodin Wok Kamaruddin (Resigned on 31 December 2018)

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 1.1.2018	**Acquired**	**Sold**	**At 31.12.2018**
The Company				
Direct interest				
Dato' Farshila Emran	246,300	105,200	-	351,500
Mohd Suffian Haji Haron	60,000	20,000	-	80,000
Related corporations				
Boustead Heavy Industries Corporation Berhad				
Mohd Suffian Haji Haron	20,000	-	-	20,000
Boustead Plantations Berhad				
Mohd Suffian Haji Haron	30,000	12,000	-	42,000
Izzat Othman	250,000	100,000	-	350,000

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 1.1.2018	**Granted**	**Exercised**	**At 31.12.2018**
The Company				
Dato' Farshila Emran	2,000,000	-	-	2,000,000
Mohd Suffian Haji Haron	2,000,000	-	-	2,000,000
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 1.1.2018	**Granted**	**Vested**	**At 31.12.2018**
The Company				
Dato' Farshila Emran	92,700	113,500	(105,200)	101,000

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.

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.

This report was approved by the Board of Directors on 1 March 2019. Signed on behalf of the Board of Directors:

MOHD SUFFIAN HAJI HARON
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

Statement by Directors

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

We, Mohd Suffian Haji Haron 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 126 to 225 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 2018 and financial performance of the Group and of the Company for the financial year ended on 31 December 2018 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 2019.

MOHD SUFFIAN HAJI HARON
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR

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 126 to 225 are, to the best of my knowledge and belief, 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
MIA Number: 44576

Subscribed and solemnly declared by the abovenamed Norai'ni Mohamed Ali at Kuala Lumpur on 1 March 2019, before me.

COMMISSIONER FOR OATHS

Independent Auditors' Report

TO THE MEMBERS OF PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Company No. 467709 M)

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 2018, 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 2018 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 126 to 225.

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 of 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.

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 RM131.5 million as at 31 December 2018 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, continuity of the concession agreement with the government, sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Examine corroborating evidence that supports management's assumption of continuity of the concession agreement; • 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.

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of property, plant and equipment and intangible assets 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 and software included within intangible assets). The carrying values of property, plant and equipment ("PPE") and intangible assets of the Group's small volume injectable plant as at 31 December 2018 are RM130.7 million and RM9.7 million respectively. The intangible assets relates to capitalised development costs work-in-progress and subject to annual impairment testing. An impairment assessment was performed 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 assets 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.

Key audit matters (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 2018, the Group has recognised deferred tax assets of RM16.8 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 2018, 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.

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 Message from the Board, 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 2018 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.

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.

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

DATO' MOHAMMAD FAIZ BIN MOHAMMAD AZMI
02025/03/2020 J
Chartered Accountant

Kuala Lumpur
1 March 2019

Income Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	4	**2,384,956**	2,323,960	**129,529**	119,394
Cost of sales	5	**(2,062,845)**	(1,988,798)	**-**	-
Gross profit		**322,111**	335,162	**129,529**	119,394
Other income	7(b)	**959**	9,006	**37**	39
Administrative expenses		**(217,677)**	(243,057)	**(20,769)**	(25,414)
Finance costs	6	**(36,072)**	(28,774)	**(6,373)**	(2,681)
Interest income		**899**	727	**295**	85
Profit before zakat and taxation	7	**70,220**	73,064	**102,719**	91,423
Zakat		**(1,071)**	(600)	**-**	-
Taxation	9	**(25,919)**	(17,377)	**-**	(2)
Net profit for the financial year		**43,230**	55,087	**102,719**	91,421
Attributable to:					
Owners of the parent		**42,468**	53,823	**102,719**	91,421
Non-controlling interests		**762**	1,264	**-**	-
Net profit for the financial year		**43,230**	55,087	**102,719**	91,421
Earnings per share (sen):					
- Basic	10(a)	**16.33**	20.74		
- Diluted	10(b)	**16.29**	20.69		

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

Statements of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net profit for the financial year		**43,230**	55,087	**102,719**	91,421
Other comprehensive loss, net of tax:					
Items that will be subsequently reclassified to profit or loss					
Foreign currency translation differences for foreign operations		**(2,670)**	(16,900)	**-**	-
Items that will not be reclassified to profit or loss					
Recognition of actuarial gains/(losses)	32	**679**	(224)	**-**	-
Other comprehensive loss, net of tax for the financial year		**(1,991)**	(17,124)	**-**	-
Total comprehensive income, net of tax for the financial year		**41,239**	37,963	**102,719**	91,421
Attributable to:					
Owners of the parent		**40,750**	41,627	**102,719**	91,421
Non-controlling interests		**489**	(3,664)	**-**	-
		41,239	37,963	**102,719**	91,421

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

Statements of Financial Position

AS AT 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**406,407**	410,854	**-**	-
Prepaid lease payments	13	**2,098**	2,281	**-**	-
Subsidiaries	14	**-**	-	**592,486**	589,786
Investment in an associate	15	**-**	-	**-**	-
Intangible assets	16	**400,892**	365,394	**-**	-
Trade receivables	18	**-**	9,472	**-**	-
Other receivables	19	**-**	5,674	**-**	5,674
Amounts due from subsidiaries	20	**-**	-	**23,205**	22,336
Deferred tax assets	31	**39,796**	35,437	**-**	-
		849,193	829,112	**615,691**	617,796
Current assets					
Inventories	17	**693,020**	484,993	**-**	-
Trade receivables and contract assets	18	**222,779**	165,481	**-**	-
Other receivables	19	**89,137**	81,222	**10,417**	160
Amount due from immediate holding company	25	**9**	-	**-**	-
Amounts due from subsidiaries	20	**-**	-	**64,069**	34,932
Tax recoverable		**17,926**	19,049	**1**	-
Deposits, cash and bank balances	21	**35,655**	27,893	**336**	177
		1,058,526	778,638	**74,823**	35,269
TOTAL ASSETS		**1,907,719**	1,607,750	**690,514**	653,065

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Company					
Share capital	28	**149,401**	146,213	**149,401**	146,213
Exchange reserve		**1,036**	3,239	**-**	-
Share reserve	29	**8,015**	10,527	**6,632**	8,676
Retained earnings	30	**350,884**	368,067	**295,672**	241,333
		509,336	528,046	**451,705**	396,222
Non-controlling interests		**19,327**	19,081	**-**	-
Total equity		**528,663**	547,127	**451,705**	396,222
Non-current liabilities					
Other payables	24	**-**	457	**-**	457
Government grants	26	**4,630**	4,864	**-**	-
Borrowings	27	**102**	401	**-**	-
Deferred tax liabilities	31	**59,191**	52,999	**-**	-
Provision for defined benefit plan	32	**8,306**	8,977	**-**	-
		72,229	67,698	**-**	457

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current liabilities					
Amounts due to subsidiaries	20	**-**	-	**22,197**	194,310
Amounts due to related companies	22	**2,429**	2,670	**5**	-
Trade payables	23	**572,257**	499,426	**-**	-
Other payables	24	**71,033**	44,123	**3,434**	2,975
Amount due to immediate holding company	25	**390**	725	**148**	101
Contract liabilities	33(b)	**242**	257	**-**	-
Government grants	26	**341**	314	**-**	-
Borrowings	27	**642,745**	443,916	**200,000**	59,000
Current tax liabilities		**4,365**	1,494	**-**	-
Dividend payable		**13,025**	-	**13,025**	-
		1,306,827	992,925	**238,809**	256,386
Total liabilities		**1,379,056**	1,060,623	**238,809**	256,843
TOTAL EQUITY AND LIABILITIES		**1,907,719**	1,607,750	**690,514**	653,065

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

Statements of Changes in Equity

FOR THE FINANICAL YEAR ENDED 31 DECEMBER 2018

		Equity attributable to equity holders of the Company							
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**
At 1 January 2018		146,213	-	3,239	10,527	368,067	528,046	19,081	547,127
Opening balance adjustments from adoption of MFRS 9	2(a)	-	-	-	-	(11,835)	(11,835)	-	(11,835)
Restated balance, at 1 January 2018		146,213	-	3,239	10,527	356,232	516,211	19,081	535,292
Net profit for the financial year		-	-	-	-	42,468	42,468	762	43,230
Other comprehensive (loss)/income		-	-	(2,203)	-	485	(1,718)	(273)	(1,991)
Total comprehensive (loss)/income for the financial year		-	-	(2,203)	-	42,953	40,750	489	41,239
Transactions with owners:									
Issuance of new shares:									
- Long Term Incentive Plan	28	3,188	-	-	(3,188)	-	-	-	-
Share options granted under Option Plan		-	-	-	1,662	-	1,662	-	1,662
Shares granted under Long Term Incentive Plan		-	-	-	2,739	-	2,739	-	2,739
Forfeiture of shares options/shares granted under:									
- Share Option Plan		-	-	-	(3,646)	3,646	-	-	-
- Long Term Incentive Plan		-	-	-	(79)	79	-	-	-
Dividends:									
- owners of the Company	11	-	-	-	-	(52,026)	(52,026)	-	(52,026)
- non-controlling interests of a subsidiary		-	-	-	-	-	-	(243)	(243)
Total transactions with owners for the financial year		3,188	-	-	(2,512)	(48,301)	(47,625)	(243)	(47,868)
At 31 December 2018		149,401	-	1,036	8,015	350,884	509,336	19,327	528,663

		Equity attributable to equity holders of the Company							
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
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 interest in subsidiary		-	-	-	-	(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		-	-	-	4,331	-	4,331	-	4,331
Shares granted under Long Term Incentive Plan		-	-	-	2,634	-	2,634	-	2,634
Dividends:									
- owners of the Company	11	-	-	-	-	(41,540)	(41,540)	-	(41,540)
- non-controlling interests of a subsidiary		-	-	-	-	-	-	(256)	(256)
Total transactions 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

	Note	Share capital RM'000	Share premium RM'000	Share reserve RM'000	Retained earnings RM'000	Total RM'000
		Non-distributable			**Distributable**	
Company						
At 1 January 2018		**146,213**	**-**	**8,676**	**241,333**	**396,222**
Total comprehensive income for the financial year		**-**	**-**	**-**	**102,719**	**102,719**
Transactions with owners:						
Issuance of new shares:						
- Long Term Incentive Plan	28	**3,188**	**-**	**(488)**	**-**	**2,700**
Share options granted under Option Plan		**-**	**-**	**1,662**	**-**	**1,662**
Shares granted under Long Term Incentive Plan		**-**	**-**	**428**	**-**	**428**
Forfeiture of share options under Share Option Plan		**-**	**-**	**(3,646)**	**3,646**	**-**
Dividends	11	**-**	**-**	**-**	**(52,026)**	**(52,026)**
Total transactions with owners for the financial year		**3,188**	**-**	**(2,044)**	**(48,380)**	**(47,236)**
At 31 December 2018		**149,401**	**-**	**6,632**	**295,672**	**451,705**
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		-	-	4,331	-	4,331
Shares granted under Long Term Incentive Plan		-	-	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

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

Statements of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**2,374,187**	2,332,061	**-**	-
Cash payments to suppliers and employees		**(2,402,704)**	(2,044,399)	**(16,909)**	(15,680)
Cash (used in)/generated from operations		**(28,517)**	287,662	**(16,909)**	(15,680)
Interest paid		**(36,946)**	(29,338)	**-**	-
Tax paid		**(16,199)**	(18,953)	**(1)**	-
Zakat paid		**(1,071)**	(600)	**-**	-
Interest received		**899**	642	**-**	-
Net cash (used in)/generated from operating activities		**(81,834)**	239,413	**(16,910)**	(15,680)
CASH FLOWS FROM INVESTING ACTIVITIES					
Repayment of advance from a corporate shareholder of a subsidiary		**-**	16,092	**-**	-
Proceeds from disposal of property, plant and equipment		**97**	79	**-**	-
Purchase of property, plant and equipment	12	**(17,743)**	(29,430)	**-**	-
Purchase of intangible assets	16	**(54,111)**	(49,164)	**-**	-
Gross advances to subsidiaries		**-**	-	**(23,390)**	(51,790)
Gross repayments from subsidiaries		**-**	-	**500**	29,100
Investment in deposits maturing more than three (3) months	21	**(4,829)**	-	**-**	-
Net cash used in investing activities		**(76,586)**	(62,423)	**(22,890)**	(22,690)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Acquisition of interest in a subsidiary from non-controlling interest	14	**-**	(16,092)	**-**	-
Proceed from issues of shares in a subsidiary		**-**	378	**-**	-
Dividends paid to:					
- owners of the Company		**(39,001)**	(41,540)	**(39,001)**	(41,540)
- non-controlling interests of a subsidiary		**(243)**	(256)	**-**	-
Drawdown of short term borrowings		**1,535,866**	955,730	**282,000**	191,000
Interest paid		**-**	-	**(6,373)**	(2,681)
Repayment of short term borrowings		**(1,334,760)**	(1,114,966)	**(141,000)**	(262,000)
Gross advances received from subsidiaries		**-**	-	**215,333**	374,492
Gross repayments to subsidiaries		**-**	-	**(271,000)**	(221,101)
Net cash generated from/(used in) financing activities		**161,862**	**(216,746)**	**39,959**	38,170
NET CHANGES IN CASH AND CASH EQUIVALENTS		**3,442**	(39,756)	**159**	(200)
Foreign exchange differences		**(509)**	(2,807)	**-**	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**27,893**	70,456	**177**	377
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	21	**30,826**	27,893	**336**	177

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

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.

New published standards, amendments to published standards and interpretations that are effective

On 1 January 2018, the Group and the Company has applied the following new published standards, amendments and IC Interpretation to published standards:

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2 "Share-based Payment"	Classification and Measurement
IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"	Recognition and Measurement

Except for the adoption of MFRS 9 and MFRS 15 as further explained below, the adoption of the above amendments and IC Interpretation to published standards did not have any significant 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)

New published standards, amendments to published standards and interpretations that are effective (continued)

- MFRS 9 "Financial Instruments" replaces 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 ('ECL') model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The Group's provision matrix is based on its historical credit loss experience with trade receivables and contract assets of similar credit risk characteristics, adjusted for forward-looking factors specific to the category of debtors and the economic environment.

  On the date of initial application, MFRS 9 did not affect the classification and measurement of the Group's financial assets and financial liabilities except that the Group's allowance for impairment has increased by RM14.6 million as at 1 January 2018 as a result of applying the ECL model on trade and other receivables. As permitted by the transitional provisions of MFRS 9, the Group has elected not to restate comparative figures, and thus these adjustments were recognised in the opening retained earnings of the current period as follows:

	Group RM'000	**Company RM'000**
Balance as at 31 December 2017	368,067	241,333
Increase in loss allowance for trade and other receivables, including deferred tax impact	(11,835)	-
As restated at 1 January 2018	356,232	241,333

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

New published standards, amendments to published standards and interpretations that are effective (continued)

- MFRS 15 "Revenue from Contracts with Customers" replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contract" and related interpretations.

  The Group applied MFRS 15 for the first time in the 2018 financial statements with the date of initial application of 1 January 2018 by using the modified retrospective transition method.

  Under the modified retrospective transition method, the Group applies the new policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated and the cumulative effects of initial application of MFRS 15 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118 and MFRS 111.

  In addition, the Group has elected the practical expedient not to retrospectively restate contracts that were modified before the date of initial application.

  The main changes to accounting policy on revenue is as follows:

  – 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 sales of good under MFRS 15 does not have any impact on the current accounting policy.

  – 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. Under MFRS 15, the revenue recognition for services does not have any impact on its current practice.

  – In previous reporting years, contract liabilities in relation to RoyalePharma cash vouchers issued were previously presented as deferred revenue. Accordingly, the presentation on Consolidated Statement of Financial Position has been changed to reflect the terminology of MFRS 15 and MFRS 9. Contract assets is presented within receivables in the Consolidated Statement of Financial Position.

  The detailed impact of the change in accounting policy on revenue is disclosed in Note 2(s).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

New published standards, amendments to published standards and interpretations 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 2018 and have not been applied by the Group:

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

- MFRS 16 "Leases" 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.

  As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RM20.6 million. Upon the adoption of MFRS 16, the Group will recognise a liability for the future operating lease payments and right-of-use assets, unless the underlying right-of-use asset is of low value or they are short-term leases, in its consolidated statements of financial position. This would result in a gross-up of the Group's total assets and total liabilities by approximately RM17.1 million. However, the Group does not expect the adoption of MFRS 16 would have any significant impact on profit or loss.

  The Group does not intend to adopt MFRS 16 before its mandatory date and however, on the date of adoption intends to adopt MFRS 16 under modified transitional approach with the cumulative retrospective impact as an adjustment to equity.

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

  The Group and the Company have assessed the impact of the above amendments to published standards and do not expect significant impact 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)

New published standards, amendments to published standards and interpretations that have been issued but not yet effective (continued)

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

- Amendments to MFRS 119 'Employee Benefits' requires an entity to remeasure the net defined benefit liability (asset) when there is a plan amendment, curtailment or settlement, to determine past service cost or a gain or loss on settlement. The amendments specify that when an entity remeasures the net defined benefit liability (asset), the entity determines the current service cost and net interest for the remainder of the annual reporting period using the assumptions used for the remeasurement and net interest for the remainder of the annual reporting period on the basis of the remeasured net defined benefit liability (asset). The amendments further clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirement.

  An entity shall apply Amendments to MFRS 119 prospectively and earlier application is permitted.

  The Group and the Company have assessed the impact of the above amendments to published standards and do not expect significant impact on the financial statements of the Group and of the Company in the year of initial adoption.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

(ii) Financial year beginning on/after 1 January 2020

- Amendments to MFRS 101 "Presentation of Financial Statements" and Amendments to MFRS 108 "Accounting Policies, Changes in Accounting Estimates, and Errors" refine the definition by including 'obscuring information' in the definition of material to respond to concerns that the effect of including immaterial information should not reduce the understandability of a company's financial statements. The prior definition focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information.

  Other refinements to the definition include incorporating some existing wording in MFRS 101 and the Conceptual Framework for Financial Reporting. Consequently, the amendments align the definition of material across MFRS Standards and other publications.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

New published standards, amendments to published standards and interpretations that have been issued but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2020 (continued)

- Amendments to MFRS 3 "Business Combinations" clarifies the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

  The amendments, amongst others, clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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;

- 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies (continued)

(iii) Group companies (continued)

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.

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).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (continued)

(i) Goodwill (continued)

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.

(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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, where they are recognised at fair value plus transaction costs. Other receivables are recognised initially at fair value plus transaction costs. Transaction costs include transfer taxes and duties.

After recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest method, less loss allowance. 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.

(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; and
- 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Share capital (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Trade payables

Trade payables represent liabilities for goods or services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value net of transaction costs incurred, which include transfer taxes and duties.

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(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.

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 or 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(s) Revenue recognition

Revenue from contracts with customers is recognised with reference to each distinct performance obligation in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of returns, rebates and discounts. Transaction price is allocated to each performance obligation on the basis of relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

(i) Sale of goods

The Group manufactures and sell a range of pharmaceutical products. Sales are recognised in the accounting period when control of the products has been transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the designated location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Contracts

Contracts with customers may include multiple promises to customers and therefore accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. When these are not directly observable, they are estimated based on expected cost plus margin.

The revenue from services rendered is measured at the fixed transaction price agreed under the contracts.

Revenue relating to contracts is recognised in the accounting period in which the services are rendered. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, for example, contracts that include the installation of equipment, revenue is recognised at a point in time when the customer obtains control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

(iii) Interest income

Accounting policies applied from 1 January 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Accounting policies applied until 31 December 2017

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income taxes (continued)

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.

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

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and
- those to be measured at amortised cost.

As of 31 December 2017, the Group classifies its financial assets as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement of financial asset at amortised cost

At initial recognition, the Group measures a financial asset at its fair value plus transactions costs, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

Subsequent to initial recognition, the financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss and statement of comprehensive income as applicable.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial assets (continued)

Equity instruments

The Group and the Company subsequently measures all equity investments at fair value. Where the Group and the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group and the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in the statement of profit or loss and statement of comprehensive income as applicable.

(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.

(w) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit loss ('ECL') associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The assessment of whether credit risk has increased significantly is based on quantitative and qualitative information that include financial evaluation of the creditworthiness of the debtors or issuers of the instruments, ageing of receivables, defaults and past due amounts, past experiences with the debtors, current conditions and reasonable forecast of future economic conditions. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the group and changes in the operating results of the debtor.

ECL represents a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group expects to receive, over the remaining life of the financial instrument. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, discounted for the time value of money and applying reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (continued)

The ECL approach can be classified into the categories below:

(i) Trade receivables

The Group applies the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

For measurement of ECL, trade receivables arising from the Group's principal activities have been grouped based on shared credit risk characteristics, for example type of customers, the days past due and geographical. Trade receivables which are in default or credit-impaired are assessed individually.

(ii) Other receivables and intercompany receivables

At each reporting date, the Group and the Company measures ECL through loss allowance at an amount equal to 12 months ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required.

Amount due from subsidiaries in the Company's separate financial statements are assessed on individual basis for ECL measurement, as credit risk information is obtained and monitored based on each balances to subsidiary.

Cash and cash equivalents are also subject to the impairment requirements of MFRS 9. The identified impairment loss was immaterial.

Accounting policies applied from 31 December 2017

In the prior years, the Group and the Company assessed impairment of financial assets based on the incurred loss model.

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Government grants

Grants from government are recognised at 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. When the grants relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(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) Contract assets and liabilities

Contract asset is the right to consideration for goods or services transferred to the customers. In the case of system and equipment design, planning, installation and commissioning contracts, contract asset is the excess of cumulative revenue earned over the billings to-date.

Where is an objective evidence of impairment, the amount of impairment losses is determined by comparing the contract asset's carrying amount and the present value of estimated future cash flows to be generated by the contract asset.

Contract liability is the obligation to transfer goods or services to customers for which the Group has received the consideration or has billed the customer. In the case of system and equipment design, planning, installation and commissioning contracts, contract liability is the excess of the billings to-date over the cumulative revenue earned. Contract liabilities include down payments received from customers, RoyalePharma Voucher and other deferred income where the Group has billed or has collected before the goods are delivered or services are to provided to the customers.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ab) 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.

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.

(ac) 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 assessment of property, plant and equipment and intangible assets</u>

The Group assesses whether there is any indication that property, plant and equipment and intangible assets 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 assessment 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.

As at 31 December 2018, the Group's estimated future financial performance is based on the ongoing negotiations to finalise the terms and conditions for the extension of the Concession Agreement with the Government of Malaysia ("CA") and that management is not aware of any adverse conditions that would result in the non-renewal of the CA.

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

As at 31 December 2018, the Group has deferred tax assets amounted to RM16.8 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)

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. (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.

Impairment assessment of financial assets

The Group recognises impairment losses for trade and other receivables using the expected credit loss model based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

4 REVENUE

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue consists of:					
Revenue from contracts with customers:					
- Contracts	33(a)	**50,534**	28,258	**-**	-
- Sale of goods		**2,334,422**	2,295,702	**-**	-
Dividend income		**-**	-	**113,500**	104,000
Management fees		**-**	-	**16,029**	15,394
		2,384,956	2,323,960	**129,529**	119,394

Disaggregation of revenue from contracts with customers:

	Group	
	2018 RM'000	2017 RM'000
Geographical markets		
- Malaysia	**1,636,652**	1,569,569
- Indonesia	**731,661**	739,024
- Other countries	**16,643**	15,367
	2,384,956	2,323,960

	Group	
	2018 RM'000	2017 RM'000
Timing of revenue recognition		
- at a point in time	**2,334,422**	2,295,702
- over time	**50,534**	28,258
	2,384,956	2,323,960

5 COST OF SALES

Cost of sales consists of:

	Note	Group 2018 RM'000	Group 2017 RM'000
Amortisation of intangible assets	16	**18,713**	14,880
Depreciation of property, plant and equipment	12	**17,000**	15,743
Employee benefit expenses	8	**47,759**	35,993
Changes in inventories of finished goods		**1,729,523**	1,720,952
Impairment of slow moving and obsolete inventories		**6,584**	3,116
Inventories written down/(back)		**2,883**	(784)
Raw materials and consumables used		**141,078**	125,967
Selling and distribution costs		**47,992**	41,330
Others		**5,779**	7,658
		2,017,311	1,964,855
Contracts costs	33(a)	**45,534**	23,943
		2,062,845	1,988,798

6 FINANCE COSTS

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Interest expenses on:				
- bankers' acceptances	**21,601**	18,179	**-**	-
- revolving credits	**14,471**	10,595	**6,373**	2,681
	36,072	28,774	**6,373**	2,681

7 PROFIT BEFORE ZAKAT AND TAXATION

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

		Group		Company	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Intangible assets:					
- amortisation	16	22,416	17,928	-	-
- written off	16	269	783	-	-
Amortisation of prepaid lease payments	13	128	140	-	-
Auditors' remuneration:					
(i) statutory audit fees					
- PricewaterhouseCoopers PLT, Malaysia		620	539	228	181
- firms other than member firms of PricewaterhouseCoopers International Limited		203	242	-	-
(ii) other non-audit fees		-	274	-	210
Bad debts written off		-	16	-	-
Directors' fees:					
- Executive	8	30	30	-	-
- Non-executive		835	698	675	532
Directors' other allowances and emoluments		47	49	37	37
Employee benefit expenses		164,600	168,994	12,494	16,296
Foreign exchange losses		1,189	2,627	-	-
Impairment loss on trade receivables	18	824	570	-	-
Impact of discounting effect on financial instruments		(2,955)	2,955	(2,955)	2,955
Property, plant and equipment:					
- depreciation	12	25,517	28,454	-	-
- written off	12	313	300	-	-
Loss on disposal of property, plant and equipment		64	73	-	-
Impairment of slow moving and obsolete inventories		14,170	6,853	-	-
Management fees paid/payable to immediate holding company		315	289	138	127
Rental of premises		8,581	8,810	8	5
Rental of equipment		3,260	3,337	58	58

During the financial year, the Group incurred a total of RM14,492,000 (2017: RM15,325,000) for research and development expenses, of which RM7,109,000 (2017: RM8,307,000) has been recognised as capitalised development cost of work-in-progress under Intangible Assets.

7 PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

(b) Other income

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Compensation awarded		**-**	8,010	**-**	-
Gain on disposal of property, plant and equipment		**92**	26	**-**	-
Rental income		**55**	14	**-**	-
Utilisation of government grant	26	**341**	-	**-**	-
Foreign exchange gains		**158**	570	**35**	17
Others		**313**	386	**2**	22
		959	9,006	**37**	39

8 EMPLOYEE BENEFIT EXPENSES

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Salaries and bonuses		105,761	112,959	6,836	8,032
Defined contribution plan		12,662	13,265	975	1,210
Defined benefit plan	32	1,173	1,693	-	-
Share-based expenses:					
- Option plan		1,449	3,785	1,449	3,785
- Long term incentive plan		2,359	2,224	48	(225)
Other short-term employee benefits		38,908	32,224	898	651
		162,312	166,150	10,206	13,453
Executive Director's remuneration:					
- Salaries and bonuses		1,403	1,598	1,403	1,598
- Fee		30	30	-	-
- Defined contribution plan		232	249	232	249
- Share-based expenses:					
• Option plan		213	546	213	546
• Long term incentive plan		380	390	380	390
- Other short-term employee benefits		60	61	60	60
		2,318	2,874	2,288	2,843
Total		164,630	169,024	12,494	16,296

8 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Employee benefit expenses included in:					
- cost of sales	5	**47,759**	35,993	**-**	-
- administrative expenses		**116,841**	133,001	**12,494**	16,296
Executive Director's fee	7(a)	**30**	30	**-**	-
		164,630	169,024	**12,494**	16,296

The estimated monetary value of benefits provided to a Director of the Company during the financial year amounted to RM37,200 (2017: RM37,200).

9 TAXATION

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current tax:					
- Malaysian income tax		**12,649**	10,577	**1**	1
- foreign income tax		**1,974**	1,882	**-**	-
- under/(over) provision in prior years		**5,570**	5,012	**(1)**	1
		20,193	17,471	**-**	2
Deferred taxation:					
- origination and reversal of temporary differences	31	**5,726**	(94)	**-**	-
Tax expense		**25,919**	17,377	**-**	2

9 TAXATION (CONTINUED)

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		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Profit before taxation after zakat	**69,149**	72,464	**102,719**	91,423
Statutory income tax at rate of 24% (2017: 24%)	**16,596**	17,391	**24,653**	21,941
Different tax rates in other country	**74**	(1,021)	**-**	-
Tax effects of:				
Expenses not deductible for tax purpose	**9,267**	8,458	**2,213**	2,494
Expenses subject to double deduction	**(4,228)**	(4,504)	**-**	-
Income not subject to tax	**(914)**	(82)	**(28,032)**	(24,991)
Origination of deductible temporary differences not recognised in current year	**-**	-	**1,167**	557
Utilisation of previously unrecognised deductible temporary differences	**(446)**	(7,877)	**-**	-
Under/(over) provision of tax in prior years	**5,570**	5,012	**(1)**	1
Tax expense	**25,919**	17,377	**-**	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	
	2018	**2017**
Net profit attributable to owners of the Company (RM'000)	**42,468**	53,823
Weighted average number of ordinary shares in issue ('000)	**260,134**	259,551
Basic earnings per share (sen)	**16.33**	20.74

10 EARNINGS PER SHARE (CONTINUED)

(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.

	Group	
	2018	**2017**
Net profit attributable to owners of the Company (RM'000)	**42,468**	53,823
Weighted average number of ordinary shares in issue ('000)	**260,134**	259,551
Assumed shares issued under Long Term Incentive Plan ('000)	**641**	606
Weighted average number of ordinary shares in issue ('000)	**260,775**	260,157
Diluted earnings per share (sen)	**16.29**	20.69

11 DIVIDENDS

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

	Company			
	2018		2017	
	Dividend per share sen	Amount of dividend RM'000	Dividend per share sen	Amount of dividend RM'000
In respect of the financial year ended 31 December 2018:				
- First interim single tier dividend	**5.0**	**12,991**	-	-
- Second interim single tier dividend	**4.0**	**10,421**	-	-
- Third interim single tier dividend	**5.0**	**13,025**	-	-
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
- Fourth interim single tier dividend	**6.0**	**15,589**	-	-
In respect of the financial year ended 31 December 2016:				
- Fourth interim single tier dividend	**-**	**-**	3.00	7,781
	20.00	**52,026**	16.00	41,540

On 21 February 2019, the Directors declared a fourth interim single tier dividend of 2.0 sen per share amounting to RM5,210,000 in respect of the financial year ended 31 December 2018. The dividend will be paid on 10 April 2019 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2019.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2018.

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						
<u>At 31 December 2018</u>						
Cost	**303,418**	**130,868**	**12,545**	**288,658**	**24,212**	**759,701**
Accumulated depreciation	**(101,435)**	**(94,614)**	**(9,788)**	**(147,457)**	**-**	**(353,294)**
Net book value	**201,983**	**36,254**	**2,757**	**141,201**	**24,212**	**406,407**
<u>At 31 December 2017</u>						
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

	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							
<u>Movements in net book value</u>							
At 1 January 2018		205,919	32,832	3,556	126,589	41,958	410,854
Additions		1,116	5,059	670	5,680	10,067	22,592
Disposals		(8)	(33)	-	(28)	-	(69)
Written off	7(a)	-	(295)	-	(18)	-	(313)
Transfer to intangible assets	16	-	(402)	-	(75)	-	(477)
Reclassification		788	4,768	-	22,190	(27,746)	-
Depreciation charged	7(a)	(5,499)	(5,631)	(1,455)	(12,932)	-	(25,517)
Foreign exchange adjustments		(333)	(44)	(14)	(205)	(67)	(663)
At 31 December 2018		201,983	36,254	2,757	141,201	24,212	406,407

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 (continued)							
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

	Freehold land RM'000	Buildings on leasehold land RM'000	Buildings on freehold land RM'000	Leasehold land RM'000	Total RM'000
Group					
Analysis of land and buildings:					
At 31 December 2018					
Cost	**25,528**	**26,878**	**121,292**	**129,720**	**303,418**
Accumulated depreciation	**-**	**(3,899)**	**(36,937)**	**(60,599)**	**(101,435)**
Net book value	**25,528**	**22,979**	**84,355**	**69,121**	**201,983**
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

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings on leasehold land RM'000	Buildings on freehold land RM'000	Leasehold land RM'000	Total RM'000
Group					
Analysis of land and buildings: (continued)					
At 31 December 2018					
Movements in net book value					
At 1 January 2018	**25,571**	**23,447**	**85,708**	**71,193**	**205,919**
Additions	**-**	**-**	**982**	**134**	**1,116**
Disposal	**-**	**-**	**-**	**(8)**	**(8)**
Reclassification	**3**	**-**	**149**	**636**	**788**
Depreciation charged	**-**	**(468)**	**(2,328)**	**(2,703)**	**(5,499)**
Foreign exchange adjustments	**(46)**	**-**	**(156)**	**(131)**	**(333)**
At 31 December 2018	**25,528**	**22,979**	**84,355**	**69,121**	**201,983**
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

	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 2018				
Cost	**28,548**	**39,720**	**62,600**	**130,868**
Accumulated depreciation	**(23,034)**	**(27,106)**	**(44,474)**	**(94,614)**
Net book value	**5,514**	**12,614**	**18,126**	**36,254**
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

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture and fittings RM'000	Renovation RM'000	Equipment RM'000	Total RM'000
Group				
Movements in net book value				
At 1 January 2018	**5,704**	**13,994**	**13,134**	**32,832**
Additions	**811**	**1,532**	**2,716**	**5,059**
Disposals	**(29)**	**-**	**(4)**	**(33)**
Written off	**(30)**	**(264)**	**(1)**	**(295)**
Transfer to intangible assets	**(23)**	**(104)**	**(275)**	**(402)**
Reclassification	**235**	**386**	**4,147**	**4,768**
Depreciation charged	**(1,145)**	**(2,907)**	**(1,579)**	**(5,631)**
Foreign exchange adjustments	**(9)**	**(23)**	**(12)**	**(44)**
At 31 December 2018	**5,514**	**12,614**	**18,126**	**36,254**
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

During the financial year, depreciation of RM17,000,000 (2017: RM15,743,000) is included in 'cost of sales' and RM8,517,000 (2017: RM12,711,000) in 'administrative expenses' in profit or loss.

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	
	2018 RM'000	**2017 RM'000**
Plant and machinery	**239**	267
Motor vehicles	**-**	36
Equipment	**1,315**	1,527
	1,554	1,830

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net cash outflows for the acquisition of property, plant and equipment during the financial year are as follows:

	Group	
	2018 RM'000	**2017 RM'000**
Acquisition of property, plant and equipment during the financial year	**22,592**	28,813
Less: Accrual of property, plant and equipment	**(3,399)**	(491)
Less: Acquired through hire purchase arrangement	**(982)**	(453)
Add: Payments for property, plant and equipment purchased in prior year	**491**	1,561
Less: Payments made in prior year for asset delivered during the financial year	**(959)**	-
Net cash outflows for the acquisition of property, plant and equipment	**17,743**	29,430

<u>Impairment assessment for property, plant and equipment and capitalised development costs of work-in-progress and software included within intangible assets in relation to the small volume injectable production plant</u>

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 RM140.1 million (2017: RM143.4 million) comprising property, plant and equipment and capitalised development costs of work-in-progress and software included in intangible assets as disclosed in Note 16 to the financial statements of RM130.7 million and RM9.4 million (2017: RM136.0 million and RM7.4 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.

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.

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment for property, plant and equipment and capitalised development costs of work-in-progress and software included within intangible assets in relation to the small volume injectable production plant (continued)

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 0% to 20% (2017: -6% to 21%) per annum and 5% to 28% (2017: -2% to 28%) respectively.

- Values of land and buildings – The estimated value of the land of RM42.3 million (2017: 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 11.60% (2017: 9.46%) 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 2018 as the recoverable amount of the small value injectable production plant cash generating unit is 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 property, plant and equipment and capitalised development costs included within intangible assets to materially exceed the recoverable amount.

13 PREPAID LEASE PAYMENTS

		Group	
	Note	**2018 RM'000**	**2017 RM'000**
Cost		**3,293**	3,348
Accumulated amortisation		**(1,195)**	(1,067)
Net book value		**2,098**	2,281

Movements in net book value

	Note	2018 RM'000	2017 RM'000
At 1 January		**2,281**	2,616
Amortisation during the financial year	7(a)	**(128)**	(140)
Foreign exchange adjustments		**(55)**	(195)
At 31 December		**2,098**	2,281

14 SUBSIDIARIES

	Company	
	2018 RM'000	**2017 RM'000**
Investment in subsidiaries:		
Unquoted shares, at cost	**586,954**	586,954
Less: Accumulated impairment	**(378)**	(378)
	586,576	586,576
Capital contribution to subsidiaries	**5,910**	3,210
	592,486	589,786

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.

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows:

			Effective equity interest (%)	
Name of Company	**Principal activities**	**Paid-up capital**	**2018**	**2017**
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

14 SUBSIDIARIES (CONTINUED)

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows: (continued)

			Effective equity interest (%)	
Name of Company	**Principal activities**	**Paid-up capital**	**2018**	**2017**
Subsidiaries of the Company (continued)				
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
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**	80

14 SUBSIDIARIES (CONTINUED)

Details of the subsidiaries incorporated in Malaysia, unless otherwise stated, are as follows: (continued)

			Effective equity interest (%)	
Name of Company	**Principal activities**	**Paid-up capital**	**2018**	**2017**
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**	73
PT Mega Pharmaniaga *# ("PT MegPha")	Dormant	IDR11,372,400,000	**95**	95
PT Errita Pharma *# ("PT Errita")	Manufacture and sale of pharmaceutical products in Indonesia	IDR95,832,000,000	**96**	96

* 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 of RM200.0 million 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 13.48% (2017: 11.45%) 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 2018 as the recoverable amount is 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.

14 SUBSIDIARIES (CONTINUED)

Incorporation of a subsidiary in the previous 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 had 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%).

Subscription of additional ordinary shares in subsidiaries in the previous financial year

In the previous financial year, the Company had:

(i) subscribed 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 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 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 in the previous financial year

On 15 December 2017, the Group, through its wholly-owned subsidiary, Pharmaniaga International Corporation Sdn. Bhd. ("Pharmaniaga Corp"), had 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 was increased from 55% to 73% and this subscription was regarded as a transaction with owners of the Group. The gain of RM3,290,000 arising from the accretion of equity interest had been recognised in retained earnings of the Group in the financial year.

With the utilisation of proceeds from the rights issue exercise, on 20 December 2017, PT MPI had 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 was increased from 85% to 96% and the increase was regarded as transaction with non-controlling interest. The loss of RM12,927,000 arising from the accretion of equity interest had been recognised in retained earnings of the Group in the previous financial year.

Acquisition of a subsidiary in the previous financial years

On 23 May 2016, the Group 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 in the previous financial year end and the fair value of the identifiable net assets of Bio-Collagen attributable to the Group at acquisition date was increase from RM96,000 to RM752,000 with a corresponding decrease in goodwill of the same amount. The amount had been adjusted as disclosed in Note 16 to the financial statements.

14 SUBSIDIARIES (CONTINUED)

Summarised financial information of a subsidiary with material non-controlling interests

Set out below are the summarised financial information for the Group's subsidiary, PT Millennium Pharmacon International TbK ("PT MPI") that has non-controlling interests that is material to the Group.

Summarised statements of financial position

	PT MPI	
	2018 RM'000	**2017 RM'000**
Current		
Assets	**322,406**	256,700
Liabilities	**(266,373)**	(203,145)
Total current net assets	**56,033**	53,555
Non-current		
Assets	**23,806**	22,908
Liabilities	**(7,159)**	(7,694)
Total non-current net assets	**16,647**	15,214
Net assets	**72,680**	68,769
Net assets attributable to non-controlling interest at the end of the financial year	**19,333**	18,293
Proportion of effective equity interests held by non-controlling interests (%)	**27**	27

14 SUBSIDIARIES (CONTINUED)

Summarised financial information of a subsidiary with material non-controlling interests (continued)

Summarised income statements and statements of comprehensive income

	PT MPI	
	2018 RM'000	**2017 RM'000**
Revenue	**676,074**	690,156
Profit before taxation	**7,608**	7,484
Taxation	**(2,117)**	(2,684)
Net profit for the financial year	**5,491**	4,800
Other comprehensive loss	**(855)**	(7,948)
Total comprehensive income/(loss), net of tax for the financial year	**4,636**	(3,148)
Net profit for the financial year allocated to non-controlling interests	**1,461**	2,160
Total comprehensive income/(loss) allocated to non-controlling interests	**1,233**	(1,417)
Dividend paid to non-controlling interests	**243**	256

14 SUBSIDIARIES (CONTINUED)

Summarised financial information of a subsidiary with material non-controlling interests (continued)

Summarised statements of cash flows

	PT MPI	
	2018 RM'000	**2017 RM'000**
Cash (used in)/generated from operations	**(15,129)**	2,564
Interest paid	**(9,998)**	(8,154)
Net tax paid	**(635)**	(2,072)
Net cash used in operating activities	**(25,762)**	(7,662)
Net cash used in investing activities	**(1,567)**	(17,995)
Net cash generated from financing activities	**21,738**	30,616
Net changes in cash and cash equivalents	**(5,591)**	4,959
Cash and cash equivalents at beginning of financial year	**16,901**	14,399
Foreign exchange differences	**(456)**	(2,457)
Cash and cash equivalents at end of financial year	**10,854**	16,901

15 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Unquoted shares, at cost	**-**	19	**-**	19
Less: Accumulated impairment	**-**	(19)	**-**	(19)
	-	-	**-**	-

Details of the associate are as follows :

			Effective equity interest (%)	
Name of Company	**Principal activities**	**Paid-up capital**	**2018**	**2017**
Pharmacare Asia Holdings (Cayman) Limited +	Liquidated during the financial year	USD4,900	-	49

+ Incorporated in Cayman Island

During the financial year, the investment in an associate was written off following the dissolution of the Company.

In the previous financial year, there were no commitments or contingent liabilities relating to the Group's interest in the associate.

16 INTANGIBLE ASSETS

Group	Note	Goodwill RM'000	Software RM'000	Rights to to supply RM'000	Capitalised development cost of work-in-progress RM'000	Capitalised development cost RM'000	Manu-facturing licences RM'000	Trade name RM'000	Intellectual property RM'000	Total RM'000
Cost										
At 1 January 2018		145,995	17,731	258,980	20,429	166	17,285	3,963	3,063	467,612
Additions		-	5,995	45,845	6,471	161	-	-	8	58,480
Transfer from property, plant and equipment	12	-	-	-	477	-	-	-	-	477
Reclassification		-	-	-	(2,310)	2,310	-	-	-	-
Foreign exchange adjustments		(1,864)	(147)	-	-	-	(557)	(131)	-	(2,699)
Written off		-	-	-	(269)	-	-	-	-	(269)
At 31 December 2018		144,131	23,579	304,825	24,798	2,637	16,728	3,832	3,071	523,601
Less: Accumulated amortisation										
At 1 January 2018		-	3,873	76,990	-	18	7,462	1,035	187	89,565
Amortisation charged	7(a)	-	1,330	18,555	-	158	1,916	252	205	22,416
Foreign exchange a djustments		-	(146)	-	-	-	(1,556)	(223)	-	(1,925)
At 31 December 2018		-	5,057	95,545	-	176	7,822	1,064	392	110,056
Less: Accumulated impairment										
At 1 January 2018/ 31 December 2018		12,653	-	-	-	-	-	-	-	12,653
Net book value										
At 31 December 2018		131,478	18,522	209,280	24,798	2,461	8,906	2,768	2,679	400,892

16 INTANGIBLE ASSETS (CONTINUED)

Group	Note	Goodwill RM'000	Software RM'000	Rights to supply RM'000	Capitalised development cost of work-in-progress RM'000	Capitalised development cost RM'000	Manu-facturing licences RM'000	Trade name RM'000	Intellectual property RM'000	Total RM'000
Cost										
At 1 January 2017		153,176	4,289	234,658	12,907	166	18,667	4,429	-	428,292
Acquisition of a subsidiary	14	(656)	-	-	-	-	564	-	-	(92)
Additions		-	7,280	24,322	7,957	-	-	-	3,063	42,622
Transfer from property, plant and equipment	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	20,429	166	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	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		133,242	13,858	181,990	20,429	148	9,823	2,928	2,876	365,394

16 INTANGIBLE ASSETS (CONTINUED)

During the financial year, amortisation of RM18,713,000 (2017: RM14,880,000) is included in 'cost of sales' and RM3,703,000 (2017: RM3,048,000) 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	
	2018 RM'000	**2017 RM'000**
Additions during the financial year	**58,480**	42,622
Less: Accrual of intangible assets	**(10,392)**	(6,023)
Add: Payment for intangible assets acquired in prior year	**6,023**	12,565
Net cash outflows on the acquisition of intangible assets	**54,111**	49,164

Impairment assessment for goodwill

The carrying amounts of goodwill allocated to the Group's cash-generating units ("CGUs") are as follows:

	2018 RM'000	**2017 RM'000**
Malaysia		
Trading and distribution	**16,839**	16,839
Manufacturing	**60,953**	60,953
Indonesia		
Trading and distribution	**2,343**	2,424
Manufacturing	**51,343**	53,126
Total	**131,478**	133,342

No impairment loss was required for the carrying amounts of goodwill assessed as at 31 December 2018 as the recoverable amounts of the CGUs are 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 and the continuity of the concession agreement with the government.

16 INTANGIBLE ASSETS (CONTINUED)

The key assumptions used in VIU calculations are as follows:

	Malaysia		Indonesia	
	Trading and distribution	**Manufacturing**	**Trading and distribution**	**Manufacturing**
2018				
Sales volume growth rate by product	**7.1% to 31.5%**	**5.0% to 55.2%**	**14.4% to 24.5%**	**10.0% to 48.5%**
Product margins	**6.5% to 7.2%**	**32.0% to 97.7%**	**8.0%**	**11.4% to 33.3%**
Discount rate	**11.13%**	**11.60%**	**13.19%**	**15.56%**
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%

(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% (2017: 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.

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 2018, the capitalised development costs of work-in-progress in relation to the small volume injectable production plant RM6.3 million (2017: RM7.4 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.

16 INTANGIBLE ASSETS (CONTINUED)

Impairment assessment for capitalised development costs of work in-progress (continued)

(b) Capitalised development costs of work in-progress in relation to other cash-generating units within the manufacturing segment

As at 31 December 2018, the capitalised development costs of work in-progress of RM18.4 million (2017: RM13.0 million) together with related property, plant and equipment of RM165.4 million (2017: RM166.9 million) and other intangible assets of RM9.5 million (2017: RM5.8 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 and the continuity of the concession agreement with the government. 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% (2017: 3% to 5%) per annum.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 11.60% (2017: 9.46%) 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 was required as at 31 December 2018 as their recoverable amounts are in excess of their carrying amounts.

17 INVENTORIES

	Group	
	2018 RM'000	**2017 RM'000**
Raw materials	**43,560**	42,755
Packaging materials	**22,703**	23,242
Work-in-progress	**6,334**	6,841
Finished goods	**620,423**	412,155
	693,020	484,993

18 TRADE RECEIVABLES AND CONTRACT ASSETS

		Group	
	Note	2018 RM'000	2017 RM'000
Current			
Trade receivables		**233,379**	173,572
Less: Provision for impairment		**(10,603)**	(8,095)
		222,776	165,477
Contract assets	33(a)	**3**	4
		222,779	165,481
Non-current			
Trade receivables		**10,817**	10,817
Less: Provision for impairment		**(10,817)**	(1,345)
		-	9,472

The credit terms of trade receivables range from 30 days to 120 days (2017: 30 days to 120 days).

Movements of the provision for impairment of trade receivables during the financial year are as follows:

	Group		
	Lifetime ECL (collectively assessed) RM'000	Lifetime ECL (individually assessed) RM'000	Total RM'000
2018			
At 1 January 2018, as previously reported	**4,204**	**5,236**	**9,440**
MFRS 9 adjustments on the opening retained earnings	**460**	**11,047**	**11,507**
At 1 January, as calculated under MFRS 9	**4,664**	**16,283**	**20,947**
Provision for impairment during the financial year (Note 7(a))	**824**	**-**	**824**
Written off	**(6)**	**-**	**(6)**
Foreign exchange differences	**(345)**	**-**	**(345)**
	5,137	**16,283**	**21,420**

18 TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

Movements of the provision for impairment of trade receivables during the financial year are as follows:(continued)

	Group
	RM'000
2017*	
At 1 January 2017	9,538
Provision for impairment during the financial year (Note 7(a))	570
Written off	(430)
Foreign exchange differences	(238)
At 31 December 2017	9,440

* *Provision for impairment disclosed in comparative period is based on MFRS 139's incurred loss model.*

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.

Information about the impairment of trade receivables and the exposure to credit risk is disclosed in Note 38(b).

19 OTHER RECEIVABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current				
Other receivables	**25,072**	17,438	**10,331**	-
Prepayments	**15,294**	11,635	**86**	160
Deposits	**5,075**	2,628	**-**	-
GST/VAT recoverable	**43,696**	49,521	**-**	-
	89,137	81,222	**10,417**	160
Non-current				
Other receivables	**3,188**	5,782	**-**	5,674
Less: Provision for impairment	**(3,188)**	(108)	**-**	-
	-	5,674	**-**	5,674

19 OTHER RECEIVABLES (CONTINUED)

Movements of the provision for impairment of other receivables during the financial year are as follows:

	Group	
	2018 RM'000	**2017* RM'000**
At 1 January, as previously reported	**108**	108
MFRS 9 adjustments on the opening retained earnings	**3,080**	-
At 1 January, as calculated under MFRS 9	**3,188**	108
Provision for impairment during the financial year	**-**	-
At 31 December	**3,188**	108

* *Provision for impairment disclosed in comparative period is based on MFRS 139's incurred loss model.*

Information about the impairment of other receivables and the exposure to credit risk is disclosed in Note 38(b).

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

	Company	
	2018 RM'000	**2017 RM'000**
Current		
Amounts due from subsidiaries	**88,204**	59,067
Less: Provision for impairment	**(24,135)**	(24,135)
Amounts due from subsidiaries - net	**64,069**	34,932
Non-current		
Amounts due from subsidiaries	**59,807**	58,938
Less: Provision for impairment	**(36,602)**	(36,602)
Amounts due from subsidiaries - net	**23,205**	22,336

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand, except for an amount of RM11.5 million (2017: nil) which earns interest at 5.00% (2017: nil) per annum and is repayable on demand.

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES (CONTINUED)

(a) Amounts due from subsidiaries (continued)

Movements of the provision for impairment of amounts due from subsidiaries during the financial year are as follows:

	Company	
	2018 RM'000	**2017 RM'000**
At 1 January/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 RM113.5 million (2017: RM104.0 million) during the financial year was set off against amounts due to subsidiaries.

During the financial year, an amount of RM8.7 million from subsidiaries was settled through offsetting the same amount due to subsidiaries.

21 DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cash and bank balances	**22,531**	27,893	**336**	177
Deposits with licensed banks	**13,124**	-	**-**	-
Total deposits, cash and bank balances	**35,655**	27,893	**336**	177
Less: Deposits maturing more than three (3) months	**(4,829)**	-	**-**	-
Total cash and cash equivalents at the end of the financial year	**30,826**	27,893	**336**	177

Cash and bank balances are deposits held at call with banks and earn no interest except for bank balances amounting to RM1.4 million (2017: RM1.8 million) that earn interest at 2.83% (2017: 2.53%) per annum.

The effective interest rates on deposits with licensed banks for the Group range from 1.50% to 3.20% (2017: nil) per annum with original maturity dates range from 3 days to 365 days (2017: nil).

22 AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest free and are repayable on demand.

23 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2017: 30 days to 120 days).

24 OTHER PAYABLES

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Non-current				
Other payables	**-**	457	**-**	457
Current				
Other payables	**49,883**	27,939	**2,186**	1,903
Accruals	**21,150**	16,184	**1,248**	1,072
	71,033	44,123	**3,434**	2,975

As at 31 December 2017, included in the other payables of the Group and of the Company was the remaining balance of the purchase consideration of RM457,000 for the acquisition of 70% equity interest in Bio-Collagen Technologies Sdn. Bhd. The amount was fully settled during the financial year.

25 AMOUNT DUE FROM/(TO) IMMEDIATE HOLDING COMPANY

The amount due from immediate holding company is unsecured, interest free and repayable on demand.

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 GOVERNMENT GRANTS

	2018 RM'000	2017 RM'000
Group		
At 1 January	**5,178**	4,454
Adjustment arising from finalisation of purchase price allocation on acquisition of a subsidiary (Note 14)	**-**	(390)
Additions during the financial year	**134**	1,114
Recognition during the financial year	**(341)**	-
At 31 December	**4,971**	5,178
Analysed as:		
- Current	**341**	314
- Non-current	**4,630**	4,864
	4,971	5,178

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		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Current				
Unsecured:				
- Bankers' acceptances	**392,263**	284,150	**-**	-
- Revolving credits	**250,000**	159,000	**200,000**	59,000
	642,263	443,150	**200,000**	59,000
Secured:				
- Hire purchase	**482**	766	**-**	-
	642,745	443,916	**200,000**	59,000
Non-current				
Secured:				
- Hire purchase	**102**	401	**-**	-
Total	**642,847**	444,317	**200,000**	59,000
Bankers' acceptances	**392,263**	284,150	**-**	-
Revolving credits	**250,000**	159,000	**200,000**	59,000
Hire purchase	**584**	1,167	**-**	-
	642,847	444,317	**200,000**	59,000

27 BORROWINGS (CONTINUED)

Hire purchase liabilities

	Group	
	2018 RM'000	**2017 RM'000**
Minimum lease payments:		
- Payable within 1 year	**512**	799
- Payable between 1 and 5 years	**109**	433
	621	1,232
Less: Future finance charges	**(37)**	(65)
Present value of liabilities	**584**	1,167

Hire purchase liabilities are effectively secured as the rights to the leased assets revert 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 December 2018					
Bankers' acceptances	**6.12**	**392,263**	**392,263**	**-**	**392,263**
Revolving credits	**4.75**	**250,000**	**250,000**	**-**	**250,000**
Hire purchase	**3.98**	**584**	**482**	**102**	**584**
		642,847	**642,745**	**102**	**642,847**
At 31 December 2017					
Bankers' acceptances	5.84	284,150	284,150	-	284,150
Revolving credits	4.45	159,000	159,000	-	159,000
Hire purchase	1.24	1,167	766	401	1,167
		444,317	443,916	401	444,317

27 BORROWINGS (CONTINUED)

Borrowings' maturity and interest rate analysis (continued)

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: (continued)

	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
Company					
At 31 December 2018					
Revolving credits	**4.95**	**200,000**	**200,000**	**-**	**200,000**
At 31 December 2017					
Revolving credits	4.75	59,000	59,000	-	59,000

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 2018 RM'000	Net cash flows RM'000	Acquisition of PPE RM'000	Foreign exchange movement RM'000	At 31 December 2018 RM'000
Group					
Borrowings	**443,150**	**202,671**	**-**	**(3,558)**	**642,263**
Hire purchase liabilities	**1,167**	**(1,565)**	**982**	**-**	**584**
Total liabilities from financing activities	**444,317**	**201,106**	**982**	**(3,558)**	**642,847**

	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

27 BORROWINGS (CONTINUED)

Reconciliation of liabilities arising from financing activities (continued)

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: (continued)

	At 1 January 2018 RM'000	Net cash flows RM'000	Non-cash transactions RM'000	At 31 December 2018 RM'000
Company				
Borrowings	**59,000**	**141,000**	**-**	**200,000**
Amounts due to subsidiaries	**194,310**	**(55,667)**	**(116,446)**	**22,197**
Total liabilities from financing activities	**253,310**	**85,333**	**(116,446)**	**222,197**

	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
Amounts due to subsidiaries	209,019	153,391	(168,100)	194,310
Total liabilities from financing activities	339,019	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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Ringgit Malaysia	**505,933**	326,617	**200,000**	59,000
Indonesian Rupiah	**136,914**	117,700	**-**	-
	642,847	444,317	**200,000**	59,000

27 BORROWINGS (CONTINUED)

Undrawn borrowings facilities

The Group and the Company have the following undrawn borrowings facilities:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Bankers' acceptances	**228,137**	231,670	**-**	-
Revolving credits	**150,000**	241,000	**-**	141,000
Bank overdraft	**2,880**	-	**-**	-
	381,017	472,670	**-**	141,000

28 SHARE CAPITAL

	Group and Company	
	2018 RM'000	**2017 RM'000**
Issued and fully paid ordinary shares:		
At 1 January	**146,213**	129,688
Adjustments arising from Companies Act 2016 coming into effect on 31 January 2017	**-**	14,266
Issuance during the financial year arising from:		
- Long Term Incentive Plan	**3,188**	2,259
At 31 December	**149,401**	146,213

In the previous financial year, 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 had been transferred to the share capital account. The New Act had abolished the concept of par or nominal value of shares and hence, the share premium and authorised capital were abolished. In accordance with subsection 618(2) of the New Act, the amount standing to the credit of the Company's share premium of RM14,266,000 became 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. As at 31 January 2019, the Company did not exercise its rights to use the credit amounts.

29 SHARE RESERVES

(a) Option Plan

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Option Plan	**6,519**	8,503	**6,519**	8,503
Long Term Incentive Plan	**1,496**	2,024	**113**	173
	8,015	10,527	**6,632**	8,676

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	
	2018 '000	2017 '000
At 1 January	**15,640**	15,640
Forfeiture	**(5,600)**	-
31 December	**10,040**	15,640
Exercisable at 31 December	**9,454**	6,236

29 SHARE RESERVES (CONTINUED)

(a) Option Plan (continued)

The fair value of the Option granted in previous financial years 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 4 (2017: 3) 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 2018, 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 1.1.2018**	**Granted**	**Vested**	**Lapsed**	**At 31.12.2018**
13 May 2016	RM5.36	RM5.60	285,300	-	(283,300)	(2,000)	-
18 May 2017	RM4.60	RM4.76	320,700	-	(160,300)	-	160,400
18 May 2018	RM3.88	RM3.88	-	721,000	(240,400)	-	480,600

29 SHARE RESERVES (CONTINUED)

(b) Long Term Incentive Plan (continued)

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	RM3.88, RM4.76 and RM5.60
Expected volatility	19.24% to 21.77%
Expected dividend yield	7.45% to 9.82%
Risk free rate	3.49% to 3.55%

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 (2017: 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:

	Group	
	2018 RM'000	**2017 RM'000**
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	**36,433**	32,720
- Deferred tax assets to be recovered within 12 months	**3,363**	2,717
	39,796	35,437
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	**(52,753)**	(50,505)
- Deferred tax liabilities to be recovered within 12 months	**(6,438)**	(2,494)
	(59,191)	(52,999)
Deferred tax liabilities (net)	**(19,395)**	(17,562)

31 DEFERRED TAXATION (CONTINUED)

		Group	
	Note	2018 RM'000	2017 RM'000
At 1 January, as previously reported		**(17,562)**	(19,807)
Deferred tax impact on opening balance adjustments from adoption of MFRS 9		**2,752**	-
At 1 January, as restated		**(14,810)**	(19,807)
Acquisition of a subsidiary	14	**-**	(172)
(Charged)/credited to income statement:			
- property, plant and equipment		**913**	(6,457)
- provisions		**(997)**	(7,028)
- unutilised tax losses		**904**	15,851
- intangible assets		**(6,546)**	(2,272)
	9	**(5,726)**	94
Foreign exchange adjustments		**1,141**	2,323
At 31 December		**(19,395)**	(17,562)

Subject to income tax

Deferred tax assets (before offsetting):		
- property, plant and equipment	**7,104**	4,161
- provisions	**14,318**	11,422
- unutilised tax losses	**30,425**	29,521
	51,847	45,104
Offsetting	**(12,051)**	(9,667)
Deferred tax assets (after offsetting)	**39,796**	35,437
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	**(21,015)**	(18,985)
- intangible assets	**(50,227)**	(43,681)
	(71,242)	(62,666)
Offsetting	**12,051**	9,667
Deferred tax liabilities (after offsetting)	**(59,191)**	(52,999)

31 DEFERRED TAXATION (CONTINUED)

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, 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 temporary differences, which include unutilised tax losses with time limit of utilisation, will be utilised and has recognised the deferred tax assets as at the end of the reporting date.

The amount of deductible temporary differences for which no deferred tax asset is recognised in the Group and in the Company's financial statements are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Unutilised tax losses	**62,822**	56,260	**42,422**	36,391
Unabsorbed capital allowances	**4,108**	12,527	**-**	-
	66,930	68,787	**42,422**	36,391
Deferred tax assets not recognised at 24% (2017: 24%)	**16,063**	16,509	**10,181**	8,734

Under the Malaysia Finance Act 2018 which was gazetted on 27 December 2018, unutilised tax losses of the Group and the Company with no expiry amounting to RM189,593,000 and RM42,422,000 respectively as at 31 December 2018 will be imposed with a time limit of utilisation. Any accumulated unutilised tax losses brought forward from year assessment 2018 can be carried forward for another 7 consecutive years of assessment (i.e. from year of assessment 2019 to 2025).

The deductible temporary difference in relation to unabsorbed capital allowances does not have any expiry date.

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 21 December 2018 and 17 January 2019.

The amounts of unfunded defined benefit recognised in the statements of financial position of the Group are determined as follows:

	Group	
	2018 RM'000	**2017 RM'000**
Present value of unfunded defined benefit obligations	**8,306**	8,977
Analysed as:		
Non-current	**8,306**	8,977
Actuarial gains/(losses) recognised in the statements of comprehensive income	**679**	(224)
Cumulative actuarial gains/(losses) recognised in the statements of comprehensive income	**32**	(647)

The movements during the financial year in the amounts recognised in the statements of financial position of the Group are as follows:

	Group	
	2018 RM'000	**2017 RM'000**
At 1 January	**8,977**	8,593
Charged to income statement (Note 8)	**1,173**	1,693
Contributions paid during the financial year	**(877)**	(565)
Recognition of actuarial (gains)/losses	**(679)**	224
Foreign exchange adjustments	**(288)**	(968)
At 31 December	**8,306**	8,977

32 PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The amounts recognised in the income statements are as follows:

	Group	
	2018 RM'000	**2017 RM'000**
Current service cost	**688**	1,052
Interest cost	**485**	641
Total, included in employee benefit expenses (Note 8)	**1,173**	1,693

The principal actuarial assumptions used in respect of the Group's unfunded defined benefit plan are as follows:

	Group	
	2018 %	**2017 %**
Discount rate	**8.5**	7.3
Expected rate of salary increase	**6.0**	6.0

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**
2018			
Discount rate	**1.0%**	**Decrease by 8.2%**	**Increase by 9.5%**
Expected rate of salary increase	**1.0%**	**Increase by 9.6%**	**Decrease by 8.5%**
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%

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 CONTRACT ASSETS/(LIABILITIES)

(a) Contract assets

	Note	Group 2018 RM'000	Group 2017 RM'000
Aggregate costs incurred to-date		**4,795**	10,726
Add: Attributable profits		**114**	2,873
		4,909	13,599
Less: Progress billings		**(4,906)**	(13,595)
Contract assets	18	**3**	4
Contract revenue recognised during the financial year	4	**50,534**	28,258
Contract costs recognised as expense during the financial year	5	**45,534**	23,943

(b) Contract liabilities

	RoyalePharma voucher 2018 RM'000	RoyalePharma voucher 2017 RM'000
Group		
At 1 January	**257**	160
Additions during the financial year	**1,250**	1,316
Recognition of income during the financial year	**(1,265)**	(1,219)
At 31 December	**242**	257
Analysed as:		
- Current	**242**	257

33 CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(c) Unsatisfied performance obligation

The following table shows unsatisfied performance obligations resulting from contract with government.

	2018 RM'000	2017 RM'000
Aggregate amount of transaction price allocated to contracts that are partially unsatisfied as at 31 December	**35,175**	-*

* *As permitted under the transitional provisions in MFRS 15, the transaction price allocated to unsatisfied performance obligations as of 31 December 2017 is not disclosed.*

Management expects that the unsatisfied contracts as of 31 December 2018 will be recognised as revenue during the next reporting period.

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.

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					
2018					
Revenue					
External sales	1,686,018	4,265	694,673	-	2,384,956
Inter-segment sales	-	324,910	-	(324,910)	-
Total revenue	1,686,018	329,175	694,673	(324,910)	2,384,956
Results					
Segment results	27,977	64,531	15,770	-	108,278
Finance costs	(18,081)	(4,291)	(15,615)	1,915	(36,072)
Interest income	2,079	445	290	(1,915)	899
	11,975	60,685	445	-	73,105
Unallocated corporate expenses					(2,885)
Profit before zakat and taxation					70,220
Zakat					(1,071)
Taxation	(6,415)	(17,376)	(2,076)	(52)	(25,919)
Net profit for the financial year					43,230

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					
2018					
Other information					
Segment assets	1,835,799	627,944	403,017	(959,041)	1,907,719
Segment liabilities	1,180,377	284,540	322,106	(407,967)	1,379,056
Capital expenditure on property, plant and equipment and intangible assets	53,822	25,429	2,298	-	81,549
Depreciation of property, plant and equipment	4,974	17,905	2,638	-	25,517
Amortisation of prepaid lease payments	51	-	77	-	128
Amortisation of intangible assets	19,494	892	2,030	-	22,416
Impairment of slow moving and obsolete inventories	7,499	6,584	87	-	14,170
Share-based expenses	3,686	715	-	-	4,401
Non-cash expenses	(2,683)	3,469	2,492	-	3,278

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					
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	3,116	314	-	6,853
Share-based expenses	6,069	876	-	-	6,945
Non-cash expenses	4,827	(353)	3,094	-	7,568

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34 SEGMENTAL REPORTING (CONTINUED)

(b) Geographical information

	Revenue from external customers RM'000	Total non-current assets RM'000
Geographical markets		
2018		
Malaysia	**1,636,652**	**773,662**
Indonesia	**731,661**	**35,735**
Other countries	**16,643**	**-**
	2,384,956	**809,397**
2017		
Malaysia	1,569,569	745,827
Indonesia	739,024	32,702
Other countries	15,367	-
	2,323,960	778,529

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 RM1.6 billion (2017: 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	
	2018 RM'000	**2017 RM'000**
Authorised and contracted for:		
- acquisition of property, plant and equipment	**10,490**	12,145
- acquisition of intangible assets	**-**	4,131
Authorised but not contracted for:		
- acquisition of property, plant and equipment	**173,585**	74,842

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	
	2018 RM'000	**2017 RM'000**
Within 1 year	**10,417**	5,822
Later than 1 year but not later than 5 years	**10,174**	4,857
	20,591	10,679

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.

In addition to related party disclosures elsewhere in the financial statements, set out below are other related party transactions and balances.

		Group		Company	
		2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(a)	Immediate holding company				
	<u>Expenses</u>				
	• Management fees	**(315)**	(289)	**(138)**	(127)
	• Corporate and administrative support services	**(665)**	(1,085)	**-**	-

		Group	
		2018 RM'000	**2017 RM'000**
(b)	Subsidiaries of the immediate holding company		
	<u>Expenses</u>		
	• Travelling and accommodation	**(1,896)**	(1,439)
	• Provision of insurance	**(2,902)**	(560)
	• Freight forwarding and transportation services	**(9,439)**	(5,005)
	• Rental of premises	**(813)**	(585)

		Company	
		2018 RM'000	**2017 RM'000**
(c)	Subsidiaries		
	<u>Income</u>		
	• Interest income on advances to a subsidiary	**292**	82
	• Dividend income from subsidiaries	**113,500**	104,000
	• Management fees charged to subsidiaries	**16,029**	15,394
(d)	Payment of expenses made on behalf:		
	• by subsidiaries	**10,042**	2,715
	• for subsidiaries	**(4,075)**	(19,127)

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Remuneration of key management personnel

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Salaries, bonuses and allowances	**6,987**	7,336	**6,958**	7,299
Social contribution costs	**8**	6	**8**	6
Defined contribution plan	**1,091**	1,089	**1,091**	1,089
Estimated monetary value of benefits by way of usage of Group assets	**361**	290	**361**	290
Share-based expenses	**3,432**	5,985	**3,432**	5,985
Fee	**1,015**	878	**675**	532
	12,894	15,584	**12,525**	15,201

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.

	Group	
	2018 RM'000	**2017 RM'000**
Sale of goods to government-related entities	**1,579,231**	1,481,726
Amounts due from government-related entities	**8,477**	3,329

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Significant outstanding balances

Significant outstanding balances arising from the above transactions are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Amounts due from				
- Immediate holding company	**9**	-	**-**	-
- Subsidiaries	**-**	-	**87,274**	57,268
Amounts due to				
- Immediate holding company	**390**	725	**148**	101
- Subsidiaries	**-**	-	**22,197**	194,310
- Related companies*	**2,429**	2,670	**5**	-

* *The related companies are subsidiaries of the immediate holding company and are included in Note 22.*

38 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, RMB 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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

As at 31 December 2018, if the functional currency had weakened/strengthened by 5% (2017: 5%) against US Dollar with all other variables held constant, post tax profit for the financial year would have been lower/higher by RM228,000 (2017: higher/lower by RM405,000) 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 2018, if the functional currency had weakened/strengthened by 5% (2017: 5%) against RMB with all other variables held constant, post tax profit for the financial year would have been lower/higher by RM184,000 (2017: RM305,000) mainly as a result of foreign exchange losses/gains on translation of RMB - denominated other receivables.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2018, if the functional currency had weakened/strengthened by 5% (2017: 5%) against the IDR with all other variables held constant, the impact on equity would have been approximately higher/lower by RM3,054,000 (2017: RM2,937,000) 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.

The financial assets and financial liabilities of the Group that are not denominated in its functional currency are set out below:

		31.12.2018	
	RMB RM'000	**US Dollar RM'000**	**Euro RM'000**
Trade receivables	-	3,638	-
Other receivables	-	3	-
Deposits, cash and bank balances	4,835	5	-
Trade payables	-	(9,257)	(748)
Other payables	-	(380)	30
	4,835	**(5,991)**	**(718)**

38 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: (continued)

		31.12.2017	
	RMB RM'000	**US Dollar RM'000**	**Euro RM'000**
Trade receivables	-	3,269	-
Other receivables	8,010	26	-
Deposits, cash and bank balances	-	5	-
Trade payables	-	(13,616)	-
Other payables	-	(350)	(331)
	8,010	(10,666)	(331)

(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.

As at 31 December 2018, if interest rates on Ringgit Malaysia - denominated borrowings of the Group and the Company had been 50 (2017: 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 RM1,578,000 (2017: RM1,567,000) and RM491,000 (2017: RM234,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

As at 31 December 2018, if interest rates on Indonesian Rupiah - denominated borrowings of the Group had been 50 (2017: 50) basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group would have been RM484,000 (2017: RM444,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk

(i) Risk management

Credit risk is managed on Group basis. 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. There are no significant concentrations of credit risk whether through exposure to individual customers and/or regions.

Under MFRS 9, cash and cash equivalents are also subject to the impairment. However, the identified impairment loss was immaterial as the counterparties are reputable financial institutions with high credit ratings and no history of default.

(ii) Impairment of financial assets

Trade receivables

The Group applies the MFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared similar credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. No significant changes to estimation techniques or assumptions were made during the reporting period.

On that basis, the Group recognises the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of MFRS 9) of RM824,000 and RM11,507,000 respectively when the amount due exceed 3 months and above.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

The aging analysis of the Group's gross receivable (before deducting allowance for impairment loss) are as follows:

	Current RM'000	Less than three months RM'000	Between three to six months RM'000	Between six months and one year RM'000	Greater than one year RM'000	Total RM'000
31 December 2018						
Gross carrying amount	**27,531**	**154,786**	**24,965**	**14,206**	**22,708**	**244,196**
1 January 2018						
Gross carrying amount	**9,487**	**109,682**	**15,500**	**32,986**	**16,734**	**184,389**

The reconciliation of loss allowance for trade receivables as at 31 December 2018 is disclosed as in Note 18.

Other receivables

Other receivables are assessed using the approach as disclosed in Note 2(w). Under MFRS 9, an amount of RM3,080,000 was adjusted to the opening retained earnings. The remaining balances are deemed recoverable, considered to be performing, and have a low risk of default and a capacity to meet contractual cash flows. This is supported after considering the historical data and the possibility of no credit loss occurring.

The reconciliation of loss allowance for other receivables as at 31 December 2018 is disclosed in Note 19.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(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.

Whilst the Group's and the Company's current liabilities exceeded their current assets by RM248,301,000 (2017: RM214,287,000) and RM163,986,000 (2017: RM221,117,000) 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				
Financial liabilities at amortised cost				
At 31 December 2018				
Borrowings	**612,652**	**38,545**	**109**	**-**
Trade payables	**572,257**	**-**	**-**	**-**
Other payables	**71,033**	**-**	**-**	**-**
Amount due to immediate holding company	**390**	**-**	**-**	**-**
Amounts due to related companies	**2,429**	**-**	**-**	**-**
Dividend payable	**13,025**	**-**	**-**	**-**
At 31 December 2017				
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	-	-	-

38 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				
Financial liabilities at amortised cost				
At 31 December 2018				
Borrowings	**200,278**	**-**	**-**	**-**
Other payables	**3,434**	**-**	**-**	**-**
Amount due to immediate holding company	**148**	**-**	**-**	**-**
Amounts due to subsidiaries	**22,197**	**-**	**-**	**-**
Amounts due to related companies	**5**	**-**	**-**	**-**
Dividend payable	**13,025**	**-**	**-**	**-**
At 31 December 2017				
Borrowings	59,248	-	-	-
Other payables	2,975	-	457	-
Amount due to immediate holding company	101	-	-	-
Amounts due to subsidiaries	194,310	-	-	-

(d) Financial instruments by category

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial assets at amortised cost				
Trade receivables	**222,779**	174,953	**-**	-
Other receivables (net of GST/ VAT receivables and prepayments)	**30,147**	25,740	**10,331**	5,674
Deposits, cash and bank balances	**35,655**	27,893	**336**	177
Amounts due from subsidiaries	**-**	-	**87,274**	57,268
Amount due from immediate holding company	**9**	-	**-**	-

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(d) Financial instruments by category (continued)

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Financial liabilities at amortised cost				
Borrowings	**642,847**	444,317	**200,000**	59,000
Trade payables	**572,257**	499,426	**-**	-
Other payables	**71,033**	44,580	**3,434**	3,432
Amount due to immediate holding company	**390**	725	**148**	101
Amounts due to related companies	**2,429**	2,670	**5**	-
Amounts due to subsidiaries	**-**	-	**22,197**	194,310
Dividend payable	**13,025**	-	**-**	-

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 borrowings divided by total capital.

The gearing ratios are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Total borrowings (Note 27)	**642,847**	444,317	**200,000**	59,000
Total equity attributable to equity holders of the Company	**509,336**	528,046	**451,705**	396,222
Gearing ratio (times)	**1.3**	0.8	**0.4**	0.1

38 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 RM15.5 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 2018, 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 2018.

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.

39 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 2019.

Other Compliance Information

RECURRENT RELATED PARTY TRANSACTIONS

At the 20th Annual General Meeting held on 11 April 2018, 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 the Main Market Listing Requirement 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	980
Boustead Travel Services Sdn Bhd	Provision of travelling services	1,896

Tan Sri Dato' Seri Lodin Wok Kamaruddin, Daniel Ebinesan and Fahmy Ismail 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 165 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 2018	228	823

Non-Audit Fees	Company RM'000	Group RM'000
Non-audit fees paid to the External Auditors for the financial year ended 31 December 2018	-	-

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 2018.

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 2018 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)
Lapsed	(5,600,000)	(5,600,000)
Outstanding	10,040,000	8,000,000

LTIP

Ordinary Share	Grand Total of Shares	Shares to Executive Director
Granted	2,096,000	315,500
Vested	(1,422,300)	(214,500)
Lapsed	(32,700)	-

During the financial year, all shares under the LTIP were granted to the Eligible Employees of the Group.

Non-Executive Directors were granted options under the Option Plan only.

Non-Executive Directors	Amount of options granted	Amount of option exercised
Mohd Suffian Haji Haron (Senior Independent)	2,000,000	-
Izzat Othman	2,000,000	-
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	2,000,000	-

Analysis of Shareholdings

As at 28 February 2019

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO OF HOLDERS	%	NO OF SHARES	%
LESS THAN 100	722	11.63	15,147	0.01
100 TO 1,000	2,396	38.58	1,161,984	0.45
1,001 TO 10,000	2,514	40.48	8,947,940	3.43
10,001 TO 100,000	508	8.18	12,716,684	4.88
100,001 TO LESS THAN 5% OF ISSUED SHARES	68	1.10	62,297,278	23.91
5% AND ABOVE OF ISSUED SHARES	2	0.03	175,365,999	67.32
TOTAL	6,210	100.00	260,505,032	100.00

30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

NO	NAME OF SHAREHOLDERS	NO OF SHARES	%
1	BOUSTEAD HOLDINGS BERHAD *ACCOUNT NON-TRADING*	146,110,415	56.09
2	LEMBAGA TABUNG ANGKATAN TENTERA	29,255,584	11.23
3	URUSHARTA JAMAAH SDN BHD	11,586,700	4.45
4	VALUECAP SDN BHD	9,094,200	3.49
5	CIMSEC NOMINEES (TEMPATAN) SDN BHD *CIMB BANK FOR CHE LODIN BIN WOK KAMARUDDIN (PBCL-0G0052)*	6,334,883	2.43
6	CHE LODIN BIN WOK KAMARUDDIN	6,165,265	2.37
7	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	3,689,700	1.42
8	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD *YAYASAN HASANAH (AUR-VCAM)*	2,641,200	1.01
9	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (VCAM EQUITY FD)*	2,214,700	0.85
10	DASAR TECHNOLOGIES SDN BHD	1,950,000	0.75
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG*	1,809,900	0.69
12	CHINCHOO INVESTMENT SDN.BERHAD	913,149	0.35
13	YONG SIEW YOON	811,364	0.31
14	GAN TENG SIEW REALTY SDN.BERHAD	657,564	0.25
15	PUBLIC NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG (E-KLC)*	642,800	0.25

30 LARGEST SHAREHOLDERS (as per the Register of Depositors) (continued)

NO	NAME OF SHAREHOLDERS	NO OF SHARES	%
16	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. YAYASAN WARISAN PERAJURIT	596,200	0.23
17	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	588,660	0.23
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	564,400	0.22
19	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN HENG LOON	560,000	0.21
20	UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	536,598	0.21
21	KEY DEVELOPMENT SDN.BERHAD	531,759	0.20
22	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	496,780	0.19
23	TAN EWE SEONG	450,000	0.17
24	GEMAS BAHRU ESTATES SDN. BHD.	432,588	0.17
25	GAN YEN CHENG	420,000	0.16
26	BIDOR TAHAN ESTATES SDN.BHD.	400,600	0.15
27	MIKDAVID SDN BHD	366,058	0.14
28	WONG WAI KUAN	361,000	0.14
29	INTER-PACIFIC EQUITY NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MAK SENG FOOK	332,200	0.13
30	RENGO MALAY ESTATE SENDIRIAN BERHAD	321,367	0.12
	TOTAL	**230,835,634**	**88.61**

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

No	Name of Substantial Shareholders	No. of Shares Held Direct	%	Indirect	%
1	BOUSTEAD HOLDINGS BERHAD ACCOUNT NON-TRADING	146,110,415	56.09	-	-
2	LEMBAGA TABUNG ANGKATAN TENTERA	29,255,584	11.23	146,110,415	56.09

Directors' Shareholdings (as per register of Directors' Shareholdings)

No	Name of Directors	No. of Shares Held in Pharmaniaga Berhad Direct	%	Indirect	%
1	FAHMY BIN ISMAIL	100	0.00	-	-
2	FARSHILA BINTI EMRAN	105,200	0.04	-	-
3	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FARSHILA BINTI EMRAN (MARGIN)	246,300	0.09	-	-
4	MOHD SUFFIAN BIN HARON	100,000	0.04	-	-

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 31/12/2018 (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	24	24,267	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	21	13,853	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	4	3,285	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 31/12/2018 (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	4	1,903	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	3	21,434	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	18	54,051	21 August 2001

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 31/12/2018 (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	33	13,002	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	22	5,967	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	16	3,059	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 31/12/2018 (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	21	953	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	25	*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	25	*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	32	*0	4 September 1987

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 31/12/2018 (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	32	*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	41	14,422	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	22	27,078	1 June 2009
17	Blok D, 20 & 21, Ruko Grand Mal, Bekasi, Jakarta, Indonesia	Shop lots	453	Freehold 23 years to 2 June 2036	16	55	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 31/12/2018 (RM'000)	Date of Revaluation / Acquisition
18	Blok D 19, Ruko Grand Mal, Bekasi, Jakarta, Indonesia	Shop lots	204	Freehold 0	1	493	14 November 2017
19	Jalan Depsos, 67 – 70 Bintaro, Jaksel, Jakarta, Indonesia	Office and warehouse	1,860	Freehold 30 years to 7 July 2028	19	797	14 January 1999 Revaluation 2001
20	Jalan Kalibokor Selatan, 152 Surabaya, Indonesia	Office and warehouse	1,133	Leasehold 5 years to 24 July 2021	37	254	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	2	1,028	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	34	8,203	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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-First Annual General Meeting of Pharmaniaga Berhad will be held at Mutiara Ballroom, Ground Floor, Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 23 April 2019 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 2018 together with the Reports of the Directors and Auditors. **(Please refer to Note 1)**

2. To re-elect Encik Mohd Suffian Haji Haron who retires as Director of the Company by rotation in accordance with Article 88 of the Company's Constitution, and being eligible, offers himself for re-election. **Resolution 1**

3. To re-elect Encik Fahmy Ismail, who retires as a Director of the Company in accordance with Article 94 of the Company's Constitution, and being eligible, offers himself for re-election. **Resolution 2**

4. To approve payment of RM34,528.00 being fees for the Director appointed with effect from 1 January 2019 until the conclusion of this Annual General Meeting of the Company. **Resolution 3**

5. To approve payment of Directors' fees and meeting allowances for Pharmaniaga Berhad and its subsidiaries from 24 April 2019 until the conclusion of the next Annual General Meeting of the Company. **Resolution 4**

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 5**

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

7. **ORDINARY RESOLUTION** **Resolution 6**
   AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016

   "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** **Resolution 7**
   PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS

   "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 11 April 2018, 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 25 March 2019, 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. **SPECIAL RESOLUTION**
   PROPOSED ADOPTION OF THE NEW CONSTITUTION OF THE COMPANY **Special Resolution 1**

   "THAT the draft new set of the Constitution of the Company in the form and manner as set out in Appendix A attached herewith be and is hereby approved and adopted as the new Constitution of the Company, in substitution for, and to the exclusion of, the existing Constitution of the Company AND THAT the Directors be and are hereby authorised to do all such acts and things and to take such steps that are necessary to give effect to adoption of the new Constitution of the Company."

10. 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
25 March 2019

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 and 94 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. At this Annual General Meeting Encik Mohd Suffian Haji Haron will be standing for re-election pursuant to Article 88 of the Company's Constitution.

The Board through the Nomination Committee ("NC") has assessed the criteria and contribution of Encik Mohd Suffian Haji Haron and has recommended for his re-election as Director of the Company.

Article 94 of the Company's Constitution provides amongst others that any casual vacancy occurring in the Board of Directors may be filled up by the Directors, but any person so chosen shall retain his office only until the next Annual General Meeting of the Company, at which he shall retire, but at which he shall be eligible for re-election. At this Annual General Meeting Encik Fahmy Ismail will be standing for re-election pursuant to Article 94 of the Company's Constitution.

The profiles of the Directors who are standing for re-election are set out on pages 18 and 22 of the Annual Report, while details of their interests in securities are set out on page 229 of the Annual Report.

3. Ordinary Resolutions 3 and **4** – 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 the general meeting.

Ordinary Resolution 3 seeks approval for payment of Directors' fees for Encik Fahmy Ismail who was appointed to the Board on 1 January 2019. Payment is for the period 1 January 2019 until conclusion of this Annual General Meeting of the Company. The Company will seek approval for payment of his Director fees from 24 April 2019 until conclusion of the next Annual General Meeting under Ordinary Resolution 4.

Ordinary Resolution 4 seeks approval for payment of Directors' fees and meeting allowances from 24 April 2019 until the conclusion of the next Annual General Meeting of the Company, which comprises the following, with or without modifications:

Notice of Annual General Meeting

Pharmaniaga Berhad

No	Directors	Annual Fees (RM)
1	Mohd Suffian Haji Haron	120,000
2	Izzat Othman	110,000
3	Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	90,000
4	Fahmy Ismail	90,000

			Annual Fees (RM)
Board of Directors	Chairman	For any new appointment from the conclusion of the 2019 AGM until conclusion of the next AGM	170,000
	Member		90,000
Audit Committee	Chairman Member		30,000 20,000
Other Board Committees	Chairman Member		5,000 3,000

		Meeting Allowance (per meeting) RM
Board of Directors' Meetings	Chairman Member	1,500 1,000
Board Committees Meetings	Chairman Member	1,500 1,000

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	46,150* 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

* IDR162.5 million based on average rate of RM0.0284 as at 31 December 2018

4. **Ordinary Resolution 5 – 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.

5. **Explanatory Notes to Special Business**

a) **Ordinary Resolution 6 - Authority for Directors to Allot and Issue Shares**

Ordinary Resolution 6, 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 Twentieth Annual General Meeting held on 11 April 2018, the mandate of which will lapse at the conclusion of the Twenty-First Annual General Meeting to be held on 23 April 2019.

b) **Ordinary Resolution 7 - Recurrent Related Party Transactions**

Ordinary Resolution 7, 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 25 March 2019.

c) **Special Resolution 1 -**
Proposed Adoption of the New Constitution of the Company

The proposed Special Resolution 1, if passed, will enable the Company's Constitution to be in line with the Companies Act 2016 and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The proposed new Constitution is set out in Appendix A, a copy of which is despatched together with the Company's Annual Report 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 Sunday, 21 April 2019 at 9.00 a.m.

f) Only members registered in the Record of Depositors as at 12 April 2019 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)
(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 Twenty-First Annual General Meeting of the Company to be held at Mutiara Ballroom, Ground Floor, Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 23 April 2019 at 9.00 a.m. or any adjournment thereof, to vote as indicated below:

No	Resolution		For	Against
1	Re-election of Encik Mohd Suffian Haji Haron	Ordinary Resolution 1		
2	Re-election of Encik Fahmy Ismail	Ordinary Resolution 2		
3	Approval of Directors' fees for Encik Fahmy Ismail from 1 January 2019	Ordinary Resolution 3		
4	Approval of Directors' fees and meeting allowances for Pharmaniaga Berhad and its subsidiaries from 24 April 2019	Ordinary Resolution 4		
5	Re-appointment of Messrs. PricewaterhouseCoopers PLT as Auditors	Ordinary Resolution 5		
6	Approval for Directors to allot and issue shares	Ordinary Resolution 6		
7	Renewal of Shareholders' Mandate for recurrent related party transactions	Ordinary Resolution 7		
8	Adoption of the New Constitution of the Company	Special Resolution 1		

Dated this ______________ day of ______________ 2019

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 Sunday, 21 April 2019 at 9.00 a.m.

(f) Only members registered in the Record of Depositors as at 12 April 2019 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

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