

CORPORATE GOVERNANCE REPORT

STOCK CODE : 7081
COMPANY NAME : Pharmaniaga Berhad
FINANCIAL YEAR : December 31, 2017

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board of Directors (the Board) of Pharmaniaga Berhad (Pharmaniaga or the Company) is committed to exhibit high standards of corporate governance. In fulfilling its role as stewards of the Company and its subsidiaries (collectively referred to as the Group), the Board is dedicated to discharge its duties with due care, skill and diligence.</p> <p>The key responsibilities of the Directors are as follows:</p> <p>a) Promoting good corporate governance culture within the Group which reinforces ethical, prudent and professional behaviour</p> <p>The Board is committed to drive the “tone of the top” in terms of ethics and professionalism, and expects the employees to conduct themselves with integrity.</p> <p>The core values of the Group are:</p> <ul style="list-style-type: none">• Respect• Integrity• Teamwork• Excellence <p>These core values have been formalised and is expressed by the moniker “RITE”. These values are disseminated to employees and continuously reinforced throughout their tenure with the Group. The Board ensures that each employee acknowledges that he has received, read and understood the Code of Conduct. A copy of this Code is made available on the Group's website, http://www.pharmaniaga.com.</p> |

b) Reviewing and deciding on management’s proposals for the Company, and monitoring its implementation by management

Management’s proposals which are reserved for the Board’s approval will be discussed at the Board Meetings, where the Directors have the opportunity to scrutinise the proposal and seek clarification from the Management team. The Managing Director ensures that Management has taken into account all the appropriate consideration before tabling the proposals to the Board. Any significant updates on the proposals would be updated to the Directors either in the next Board Meeting or in follow-up reports distributed.

The day-to-day management of the Group is delegated to the Managing Director and the Senior Management Team. In this respect, the Board is guided by the Limits of Authority which provides the authority limits for corporate, operational, financial and human resource areas. The Limits of Authority determines the respective approving authorities for each transaction, prohibiting unfettered powers for any single individual within the various levels of management.

c) Ensuring that the strategic plan of the Group supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability;

The Group’s sustainability initiatives reflect its continuous drive towards maximising opportunities for strong fiscal growth and optimising operational efficiency in tandem with the long term-term value creation based on economic, environmental and social considerations. Details of the Group’s sustainability efforts are set out in its Sustainability Report 207.

d) Supervising and assessing management performance to determine whether the business is being properly managed

The Board meets at least four (4) times a year, with additional meetings held as and when required by the Board. Prior to the start of the new financial year, the Board will review and discuss the annual budget and strategic business plans presented by Management, before approving for execution. Key Performance Indicators (KPIs) for the Executive Directors and Senior Management team are put in place to ensure Management’s performance is aligned with the Group’s business targets for the year, and also for future medium and long-term basis. By the end of the said financial year, the Remuneration Committee will recommend to the Board the appropriate annual increment for the Managing Director and Senior Management team, based on the Group’s financial performance and the said executive’s individual performance assessment.

e) Ensuring there is a sound framework for internal controls and risk management

The Board acknowledges its overall responsibility in maintaining a sound system of internal control to safeguard shareholders' investments and the assets of the Group and for reviewing the adequacy and integrity of the system. Notwithstanding this, due to the limitations that are inherent in any system of internal control, the Group's internal control system is designed to manage risks within tolerable and knowledgeable limits, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. Details of the Group's internal controls are set out in its Statement on Risk Management and Internal Control, which is on page 83 to page 90 of the Company's Annual Report.

f) Understanding the principal risks of the Group's business and recognising that business decisions involve the taking of appropriate risks

The Board has ensured that the Group has the necessary risk infrastructure encompassing the risk assessment process, organisational oversight and reporting function to instil the appropriate discipline and control for continuous improvement of risk management capabilities. Details of the Group's risk management measures are set out in its Statement on Risk Management and Internal Control of the Company's Annual Report.

g) Ensuring that there is an appropriate risk management framework in place, for management to identify, manage and monitor significant risks

The Board has put in place a Risk Management Framework for Management to identify, evaluate manage and monitor significant risks. Details of the Group's Risk Management Framework are set out in its Statement on Risk Management and Internal Control of the Company's Annual Report.

h) Ensuring that Senior Management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of Board and Senior Management

The Board seeks to ensure that the members of the Senior Management team are qualified, professional and have sufficient calibre to collectively lead the operations of the Group. The Board takes cognisance that the orderly succession of Senior Management is important to ensure readiness of internal candidates to fill potential positions. In this respect, the Group has put in place talent development programmes to provide opportunities for employees to hone their capabilities and leadership skills.

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| | <p>i) Ensuring that the Group has in place procedures to enable effective communication with stakeholders</p> <p>The Board is committed in providing effective and timely communication with its stakeholders. The Group uses a number of formal channels for effective dissemination of information to the public, namely, the Annual Report, announcements to Bursa Malaysia Securities Berhad and media releases. Regular analyst briefings are conducted for stakeholders, whilst the Group’s website, http://www.pharmaniaga.com provides relevant information for investors and other stakeholders.</p> <p>j) Ensuring the integrity of the Company’s financial and non-financial reporting</p> <p>The Audit Committee has been entrusted by the Board to ensure the Group’s financial and non-financial reporting present a true and fair view of its state of affairs. The Audit Committee meets regularly to review the unaudited financial results, and ensures Management prepares the results and statements in accordance with the Companies Act 2016, Main Market Listing Requirements of Bursa Malaysia Securities Berhad (MMLR), applicable accounting standards and other relevant regulatory requirements.</p> |
| <p>Explanation for departure</p> | <p>:</p> |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | |
| <p>Measure</p> | <p>:</p> |
| <p>Timeframe</p> | <p>:</p> |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>Tan Sri Dato' Seri Lodin Wok Kamaruddin is the Chairman of the Company. His profile can be viewed on page 16 of the Company's Annual Report. He provides leadership so that the Board can perform its responsibilities effectively.</p> <p>As provided under the Company's Board Charter, the Chairman is responsible for, among others:</p> <ul style="list-style-type: none">• Leading the Board in setting the values and standards of the Company;• Encouraging all Directors to play an active role in Board activities; and• Ensuring the provision of accurate, timely and clear information to Directors. <p>The Chairman together with the Company Secretary sets the agenda of each Board Meeting. He ensures that Directors receive Board papers in a timely manner and that Directors are properly briefed on issues arising in Board meetings. During Board Meetings, the Chairman leads the discussion, allowing sufficient time for deliberations on key issues and complex matters. He also encourages active participation and allows views including dissent to be freely expressed. The Chairman also ensures that every Board resolution is put to vote and the will of majority prevails.</p> <p>The Chairman plays a key role in the conduct of the General Meetings. Besides ensuring the proper flow of resolutions tabled at the meeting, he manages the communication on the floor. He further encourages active participation from shareholders and allows a generous amount of time during the questions and answers session.</p> |
| Explanation for departure | : | |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| Measure : | | |
| Timeframe : | | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The roles of the Chairman and Managing Director are separate and clearly defined and are held by two distinct individuals. Tan Sri Dato' Seri Lodin Wok Kamaruddin is the Non-Independent Non-Executive Director and Chairman of the Board whereas Dato' Farshila Emran is the Managing Director of Pharmaniaga entrusted with providing the necessary support for the Chairman.</p> <p>The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director has the overall responsibility for the day-to-day running of the business and implementation of Board policies and decisions. The separation of power seeks to facilitate an appropriate balance of power to prevent any single individual from dominating deliberations and the decision-making process.</p> <p>The respective duties and responsibilities of the Chairman and the Managing Director are contained in the Board Charter.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Company Secretary of Pharmaniaga is Ms Tasneem Mohd Dahalan. She holds an LL.B and LL.M and is qualified to hold the position under Section 235 of the Companies Act, 2016. She has 20 years of professional experience and was appointed as the Company Secretary of Pharmaniaga Berhad on 1 April 2014.</p> <p>The Company Secretary plays an advisory role in supporting the Board to uphold high standards of corporate governance. As a counsel to the Board, she provides the Board with periodic updates regarding regulatory developments and assists the Board in interpreting and applying pertinent corporate governance promulgations such as Capital Markets and Services Act 2007 (Amendment 2012), Companies Act 2016 and MMLR. The Company Secretary also provides support in facilitating the flow of information to the Board. The Company Secretary additionally serves as a liaison for stakeholders' communication and engagement on corporate governance issues. The role and responsibilities of the Company Secretary are set out in the Board Charter.</p> <p>The Company Secretary has a direct functional reporting line to the Chairman and has been accorded with appropriate standing and authority to enable her to discharge her duties in an impartial and effective manner. The appointment or removal of the Company Secretary is the prerogative of the Board.</p> <p>In order to upskill herself and keep abreast with the latest developments in the corporate governance realm, the Company Secretary has attended relevant training and professional development programmes during the financial year relating to Companies Act 2016, Malaysian Code on Corporate Governance (MCCG) and MMLR.</p> |
| Explanation for departure | : | |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| Measure : | | |
| Timeframe : | | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board recognises the importance of information supply in promoting informed Board discussions and deliberations. The Chairman, together with Management and Company Secretary, are responsible for ensuring Directors receive adequate and timely information prior to Board or Board Committee meetings.</p> <p>The Board meets regularly during the year, with the annual meeting diary tentatively made in advance to facilitate Directors' planning. There is a formal schedule of matters (including quarterly financial results, strategic business issues, and the annual business plan) reserved for discussion at the scheduled Board meetings.</p> <p>The notice of the Board meetings is circulated to Board members at least 14 days before the meeting and the agenda and Board papers are circulated to the Directors five days before each meeting.</p> <p>The Directors are supplied with Board papers with necessary information that are accurate, clear and comprehensive to enable informed decision making at the Board meetings. In addition, Board members can seek further advice or clarification from Management when required.</p> <p>The deliberations and conclusions of issues discussed in the Board meetings are duly recorded in the Board minutes, the draft of which is circulated for the Chairman's review within a reasonable timeframe after the meeting. The meeting minutes capture the decisions made, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views.</p> <p>The decisions made at the Board meetings are also communicated to Management in a timely manner to ensure appropriate execution.</p> |
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| Measure : | | |
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Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board is guided by its Board Charter which clearly sets out the Board's strategic intent, roles and responsibilities in discharging its fiduciary and leadership functions. The Board Charter is reviewed periodically and updated in accordance with the needs of the Group to ensure its effectiveness and consistency with the Board's objectives and corporate vision. The Board Charter serves as a primary reference point on governance matters for Directors as well as an induction literature for newly-appointed Directors.</p> <p>The Board Charter addresses, among others, the following matters:</p> <ul style="list-style-type: none">• Role and responsibilities of the Board;• Composition, Board balance and Board diversity;• The role of Chairman and Managing Director;• Supply of information and Board meetings;• Matters reserved for the Board;• Board effectiveness evaluation;• Board Committees;• Financial Reporting;• General Meetings; and• Communication with stakeholders. <p>The Board Charter was last reviewed on 27 February 2018. The Board Charter is accessible for reference on the Group's website, http://www.pharmaniaga.com</p> |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| Measure : | | |
| Timeframe : | | |

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board consistently strives to set the “tone at the top” and instil ethical values and standards across every level of the Group. In this regard, the Company has put in place a Code of Conduct which subject employees to a set of values and standards of conduct that is expected of them.</p> <p>The Code of Conduct serves as a formal commitment by employees to conduct themselves professionally at all times and to do business in a transparent, appropriate and fair manner. The Code of Conduct is available on the Group’s website, http://www.pharmaniaga.com.</p> <p>The Code of Conduct covers the following overarching areas:</p> <ul style="list-style-type: none">• Conducting business ethically, fairly and with honesty;• Complying with laws including abuse of power, corruption, insider trading and money laundering;• Providing quality and safe products;• Protecting the Group’s assets and information;• Maintaining complete and accurate business records; and• Respecting others in the workplace and society. <p>All employees of the Group are required to acknowledge that they have received, read and understood the provisions of the Code of Conduct.</p> <p>The Board reviews the Code of Conduct periodically or as and when the need arises to ensure it is kept contemporaneous.</p> |
| Explanation for departure | : | |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| Measure : | | |
| Timeframe : | | |

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Group is committed in preserving and protecting the interest and reputation at all times. In this respect, the Whistleblowing Policy was established in July 2010.</p> <p>The main objective of the Whistleblowing Policy is to provide an objective point of escalation for employees or stakeholders to disclose in a bona fide manner any suspected acts of wrongdoings without any fear of reprisal. The Whistleblowing Policy provides guidelines for the reporting and the investigation of any wrongdoings. Such misconducts may be reported in writing directly to a dedicated e-mail address, namely, alert@pharmaniaga.com. The other channels for whistleblowing can be accessed at the Group’s website, http://www.pharmaniaga.com.</p> <p>The Board together with Management, reviews the Whistleblowing Policy periodically or as and when the need arises to ensure it is kept contemporaneous.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board comprises six (6) members, three (3) of which are Independent Directors as follows:</p> <ul style="list-style-type: none">• Mohd Suffian Haji Haron.• Izzat Othman.• Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired). <p>With half of the Board composed of Independent Directors, Pharmaniaga is able to facilitate greater checks and balances during boardroom deliberations and decision making. This counterweight allows Independent Directors to encourage, support and drive each other in the value creation and sustainability of the business.</p> <p>In addition, the presence of the Senior Independent Non-Executive Director, Mohd. Suffian Haji Haron provides an additional channel for Independent Directors to voice any opinions or concerns that they believe have not been properly considered or addressed by the Board or which they feel may not be appropriate to raise in open forum.</p> <p>The Nominating Committee has assessed the Board composition and is satisfied that the current size and composition of Directors is adequate to provide a balance mix of skills and experience, as well as the objectivity required in the boardroom.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

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| Application | : | Not applicable - No independent director(s) serving beyond 9 years | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | Not applicable - No independent director(s) serving beyond 9 years. | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

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| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board acknowledges the importance of diversity in terms of skills, experience, age, gender, cultural background and ethnicity and recognises the benefits of diversity at leadership and employee level.</p> <p>Having a range of diversity dimensions brings different perspectives to the boardroom and to various levels of Management within the Group.</p> <p>The Nominating Committee is responsible to lead the process for the nomination of new Board appointments and making the necessary recommendations. In this respect, the role of the Nominating Committee is detailed in its Terms of Reference, which is accessible for reference on the Group's website, http://www.pharmaniaga.com.</p> <p>In making its recommendations to the Board, the Nominating Committee considers and assess the suitability of a new appointment based on objective criteria, including:</p> <ul style="list-style-type: none">• Qualification;• Required competencies, skills, expertise and experience;• Specialist knowledge or technical skills;• Professionalism and integrity; and• Time commitment to the Company. |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | The Board recognises the government's call for gender diversity of at least 30% women directors in companies. The Board is mindful that any gender representation should be in the best interest of the Company. The Managing Director is a woman, nevertheless the Board will continue to search for suitable female candidates to fill in directorship position. | |
| | | The Company does not have a formalised Board gender diversity policy alongside targets and measures. However, the issue of diversity is discussed and given prominence during deliberations by the Nominating Committee and the Board. The Board will take steps towards formalising such policy, targets and measures to reflect the Company's commitment towards gender diversity. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nominating Committee is responsible for recommending suitable candidates for Directorships to the Board. In undertaking this responsibility, the Nomination Committee leverages on several sources to “cast a wider net” and gain access to a wide pool of potential candidates. The responsibilities of the Nominating Committee in this regard are outlined in its Terms of Reference.</p> <p>In evaluating potential candidates, the Nominating Committee will assess directorship suitability based on objective criteria, including:</p> <ul style="list-style-type: none"> • Qualification; • Required competencies, skills, expertise and experience; • Specialist knowledge or technical skills; • Professionalism and integrity; and • Time commitment to the Company. <p>In searching for suitable candidates, the Nominating Committee may receive suggestions from existing Board Members, Management, and major shareholders. The Committee is also open to referrals from external sources available, such as industry and professional associations, as well as independent search firms.</p> |
| Explanation for departure | : | |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nominating Committee is chaired by the Senior Independent Non-Executive Director, Mohd Suffian Haji Haron. The membership of the Nominating Committee is outlined below:</p> <ol style="list-style-type: none">1) Mohd Suffian Haji Haron (Senior Independent Non-Executive Director)2) Izzat Othman (Independent Non-Executive Director)3) Tan Sri Dato' Seri Lodin Wok Kamaruddin (Non-Independent Non-Executive Director) <p>The Board understands that an effective recruitment and evaluation process of Directors is the building block of a high-performing Board. The Board therefore believes that the Senior Independent Non-Executive Director is the most suitable and qualified person to lead the conduct of the process in an objective manner.</p> <p>Given that the Senior Independent Non-Executive Director acts as a confidant to other Directors, he is well-placed to oversee the assessment of the Board's Chairman, taking into account a broad range of perspectives.</p> <p>In addition, Mohd Suffian Haji Haron acts as a sounding board for the Chairman and serves as an intermediary for the other Directors. He also acts as the point of contact to whom stakeholders' concerns or queries may be raised.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nominating Committee is responsible for the Board Effectiveness Evaluation (BEE) process, covering the Board, Board Committees and individual Directors, including Independent Directors.</p> <p>The Nominating Committee, upon conclusion of the BEE exercise, was satisfied that the Board and Board Committee composition had fulfilled the criteria required, possess a right blend of knowledge, experience and the appropriate mix of skills. In addition, there was mutual respect amongst individual Directors which contributed to a healthy environment for constructive deliberation and robust decision-making process. Independent Directors were assessed to be objective in exercising their judgment.</p> <p>The BEE for the year 2017 was conducted internally, facilitated by the Company Secretary. The BEE was conducted using questionnaires that were administered by the Company Secretary which employ a self and peer rating assessment model.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | Presently the Company does not have a formalised remuneration policies and procedures for Directors and Senior Management. | |
| | : | The Board will take steps towards formalising such policies and procedures to reflect the Company's commitment to attract and retain Directors and Senior Management personnel of high calibre and talent. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

| | | |
|--|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has in a place a Remuneration Committee which comprising a majority of Non-Executive Directors. The membership of the Remuneration Committee is outlined below:</p> <ol style="list-style-type: none">1) Mohd Suffian Haji Haron (Senior Independent Non-Executive Director and Chairman of the Remuneration Committee)2) Izzat Othman (Independent Non-Executive Director)3) Tan Sri Dato' Seri Lodin Wok Kamaruddin (Non-Independent Non-Executive Director) <p>The Remuneration Committee responsibilities include reviewing the remuneration packages, reward structure and fringe benefits applicable to Board and Senior Management; and making the appropriate recommendations to the Board.</p> <p>The Terms of Reference of Remuneration Committee is accessible for reference on the Group's website, http://www.pharmaniaga.com.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

| Application : | Applied | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|----------------|----------------|----------------|----------------|---------------|---------------|------------------|--------------------|-------------|---------|-----------------|--------------------|-------------|----|----|----|----|----|----|----|--------------------------|--|--|--|--|--|--|--|--|----------------------|---|--------|---------|---------|---------|--------|-------|------------------|--------------------------------|--|--|--|--|--|--|--|--|--|---------|---------|---|---|---|---|-------|----------------|--|---------|---------|---|---|---|---|-------|----------------|-----------------|--------|--------|---|---|---|---|-------|---------------|--------------|---------|---------|---|---|---|---|--------|----------------|---|--------|--------|---|---|---|---|-------|---------------|--------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|------------------|
| Explanation on application of the practice : | <p>The Board aims to set remuneration at levels which are sufficient to attract and retain the Directors needed to run the Group successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved. The level of remuneration for the Managing Director is determined by the Remuneration Committee after giving due consideration to the compensation levels for comparable positions among other similar Malaysian listed issuers.</p> <p>The remuneration of Non-Executive Directors is approved by shareholders at the AGM of the Company, as prescribed by the Company's Constitution and the Companies Act 2016.</p> <p>The details for the remuneration of Directors for the financial year ended 31 December 2017 for the Group and the Company are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Directors</th> <th colspan="2">Fees</th> <th rowspan="2">Salaries</th> <th rowspan="2">Bonuses</th> <th rowspan="2">EPF</th> <th rowspan="2">Benefit in Kind</th> <th rowspan="2">Meeting Allowances</th> <th rowspan="2">Total Group</th> </tr> <tr> <th>Company</th> <th>Group</th> </tr> <tr> <th></th> <th>RM</th> <th>RM</th> <th>RM</th> <th>RM</th> <th>RM</th> <th>RM</th> <th>RM</th> <th>RM</th> </tr> </thead> <tbody> <tr> <td colspan="9">Managing Director</td> </tr> <tr> <td>Dato' Farshila Emran</td> <td>-</td> <td>30,000</td> <td>945,000</td> <td>652,500</td> <td>248,625</td> <td>37,200</td> <td>1,000</td> <td>1,914,325</td> </tr> <tr> <td colspan="9">Non-Executive Directors</td> </tr> <tr> <td>Tan Sri Dato' Seri Lodin Wok Kamaruddin (Chairman)</td> <td>135,000</td> <td>135,000</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>5,000</td> <td>140,000</td> </tr> <tr> <td>Mohd Suffian Hj Haron (Senior Independent)</td> <td>115,000</td> <td>115,000</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>9,000</td> <td>124,000</td> </tr> <tr> <td>Daniel Ebinesan</td> <td>90,000</td> <td>90,000</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>6,750</td> <td>96,750</td> </tr> <tr> <td>Izzat Othman</td> <td>102,000</td> <td>216,000</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>21,250</td> <td>237,250</td> </tr> <tr> <td>Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)</td> <td>90,000</td> <td>90,000</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>6,500</td> <td>96,500</td> </tr> <tr> <td>Total</td> <td>532,000</td> <td>676,000</td> <td>945,000</td> <td>652,500</td> <td>248,625</td> <td>37,200</td> <td>49,500</td> <td>2,608,825</td> </tr> </tbody> </table> | Directors | Fees | | Salaries | Bonuses | EPF | Benefit in Kind | Meeting Allowances | Total Group | Company | Group | | RM | RM | RM | RM | RM | RM | RM | RM | Managing Director | | | | | | | | | Dato' Farshila Emran | - | 30,000 | 945,000 | 652,500 | 248,625 | 37,200 | 1,000 | 1,914,325 | Non-Executive Directors | | | | | | | | | Tan Sri Dato' Seri Lodin Wok Kamaruddin (Chairman) | 135,000 | 135,000 | - | - | - | - | 5,000 | 140,000 | Mohd Suffian Hj Haron (Senior Independent) | 115,000 | 115,000 | - | - | - | - | 9,000 | 124,000 | Daniel Ebinesan | 90,000 | 90,000 | - | - | - | - | 6,750 | 96,750 | Izzat Othman | 102,000 | 216,000 | - | - | - | - | 21,250 | 237,250 | Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired) | 90,000 | 90,000 | - | - | - | - | 6,500 | 96,500 | Total | 532,000 | 676,000 | 945,000 | 652,500 | 248,625 | 37,200 | 49,500 | 2,608,825 |
| Directors | Fees | | Salaries | Bonuses | | | | | | | EPF | Benefit in Kind | Meeting Allowances | Total Group | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Company | Group | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | RM | RM | RM | RM | RM | RM | RM | RM | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Managing Director | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dato' Farshila Emran | - | 30,000 | 945,000 | 652,500 | 248,625 | 37,200 | 1,000 | 1,914,325 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin (Chairman) | 135,000 | 135,000 | - | - | - | - | 5,000 | 140,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mohd Suffian Hj Haron (Senior Independent) | 115,000 | 115,000 | - | - | - | - | 9,000 | 124,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Daniel Ebinesan | 90,000 | 90,000 | - | - | - | - | 6,750 | 96,750 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Izzat Othman | 102,000 | 216,000 | - | - | - | - | 21,250 | 237,250 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired) | 90,000 | 90,000 | - | - | - | - | 6,500 | 96,500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 532,000 | 676,000 | 945,000 | 652,500 | 248,625 | 37,200 | 49,500 | 2,608,825 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Explanation for departure : | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

| | | |
|--------------------|--|--|
| Measure : | | |
| Timeframe : | | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

| Application | : | Departure | | | | | | | | | | | | | | |
|---|--------------------------|---|---|--------------------------|-----------------------------|---|---------------------------------|---|---------------------------------|---|---------------------------------|---|---------------------------------|---|--------------|----------|
| Explanation on application of the practice | : | | | | | | | | | | | | | | | |
| Explanation for departure | : | <p>Remuneration paid to the top five (5) Senior Management of Pharmaniaga for the financial year ended 31 December 2017 are as follows:</p> <table border="1"><thead><tr><th>Top Five Senior Management (not including Managing Director)</th><th>Number of persons</th></tr></thead><tbody><tr><td>From RM900,001 to RM950,000</td><td>1</td></tr><tr><td>From RM1,200,001 to RM1,250,000</td><td>1</td></tr><tr><td>From RM1,250,001 to RM1,300,000</td><td>1</td></tr><tr><td>From RM1,650,001 to RM1,700,000</td><td>1</td></tr><tr><td>From RM1,700,001 to RM1,750,000</td><td>1</td></tr><tr><td>Total</td><td>5</td></tr></tbody></table> <p>No Senior Management's remuneration falls within the RM950,001 to RM1,200,000 and RM1,300,001 to RM1,650,000 bands.</p> <p>The remuneration of the top five (5) Senior Management of the Company disclosed above is on an aggregate basis. At this particular juncture, the Board is of the opinion that the disclosure of the Senior Management's individual remuneration components (salary, bonus, benefits in-kind, other emoluments) would not be in the best interest of the Group due to confidentiality and security concerns.</p> <p>The Board ensures that the remuneration of Senior Management is commensurate with the performance of the Company, with due consideration to attracting, retaining and motivating Senior Management to lead and run the Company successfully. Excessive remuneration pay-outs are not made to Senior Management personnel in any instance.</p> <p>The disclosure of the remuneration of the top five Senior Management of the Company is currently made on an aggregate basis and it allows stakeholders to make an appreciable link between remuneration of Senior Management and the performance of the Group.</p> | Top Five Senior Management (not including Managing Director) | Number of persons | From RM900,001 to RM950,000 | 1 | From RM1,200,001 to RM1,250,000 | 1 | From RM1,250,001 to RM1,300,000 | 1 | From RM1,650,001 to RM1,700,000 | 1 | From RM1,700,001 to RM1,750,000 | 1 | Total | 5 |
| Top Five Senior Management (not including Managing Director) | Number of persons | | | | | | | | | | | | | | | |
| From RM900,001 to RM950,000 | 1 | | | | | | | | | | | | | | | |
| From RM1,200,001 to RM1,250,000 | 1 | | | | | | | | | | | | | | | |
| From RM1,250,001 to RM1,300,000 | 1 | | | | | | | | | | | | | | | |
| From RM1,650,001 to RM1,700,000 | 1 | | | | | | | | | | | | | | | |
| From RM1,700,001 to RM1,750,000 | 1 | | | | | | | | | | | | | | | |
| Total | 5 | | | | | | | | | | | | | | | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

| | | |
|--------------------|--|--|
| Measure : | | |
| Timeframe : | | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

| | |
|--|-------------|
| Application : | Not Adopted |
| Explanation on adoption of the practice : | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

| | | |
|--|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board of Directors has established an Audit Committee which is chaired by the Senior Independent Non-Executive Director, Mohd Suffian Haji Haron. Meanwhile, the Chairman of the Board is Tan Sri Dato' Seri Lodin Wok Kamaruddin.</p> <p>As such, the Chairman of the Audit Committee is distinct from the Chairman of the Board. Having the positions of Board Chairman and Chairman of the Audit Committee assumed by different individuals allows the Board to objectively review the Audit Committee's findings and recommendations.</p> <p>The possession of sound financial understanding and experience equips the Chairman of the Audit Committee with the ability to lead discussions and deliberations and ultimately be satisfied that the end result fairly reflects the understanding of the Audit and Compliance Committee. His full profile can be viewed on page 18 of the Company's Annual Report.</p> <p>The duties and responsibilities of the Chairman of the Audit Committee are outlined in the Terms of Reference of the Audit Committee, which is available on the Group's website, http://www.pharmaniaga.com.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Audit Committee comprises of four (4) members, all whom are Non-Executive Directors and with a majority being independent.</p> <p>At present, none of the Audit Committee members were former key audit partners of the Company's external auditors.</p> <p>As a measure to safeguard the independence and objectivity of the audit process, the Audit Committee has incorporated a policy stipulation that governs the appointment of a former key audit partner to the Audit Committee.</p> <p>The policy, which is codified in the Audit Committee's Terms of Reference, requires a former key audit partner to observe a cooling-off period of at least two (2) years before he can be considered for appointment as a Committee member.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Audit Committee is responsible for assessing the capabilities and independence of the external auditor and to make subsequent recommendations to the Board on the appointment, re-appointment or termination of the external auditor.</p> <p>Under its Terms of Reference, the Audit Committee reviews the suitability, objectivity and independence of the external auditor of the Company on an annual basis. The review process covers the assessment of the independence of the external auditor, the evaluation of the external auditor's performance, quality of work, audit fees and the adequacy of resources.</p> <p>During the financial year, the Audit Committee met with the external auditor namely, Messrs. PricewaterhouseCoopers PLT, twice during the year in the absence of Management. The Audit Committee also monitored and reviewed the performance and independence of Messrs. PricewaterhouseCoopers PLT and is satisfied that the external auditor has been independent throughout the conduct of the audit process and the audit services rendered have met the quality expected by the Committee.</p> <p>For the audit of the financial year ended 31 December 2017, the Audit Committee was further assured by Messrs. PricewaterhouseCoopers by way of written confirmation that its personnel were and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.</p> <p>Pursuant to the assessment on the suitability and independence of the external auditor, the Audit Committee made its recommendation to the Board on the re-appointment on the external auditor alongside the accompanying audit fees.</p> |
| Explanation for departure | : | |
| | | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

| | | |
|--------------------|--|--|
| Measure : | | |
| Timeframe : | | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

| | |
|--|-------------|
| Application : | Not Adopted |
| Explanation on adoption of the practice : | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Audit Committee comprises four (4) members as follows:</p> <ol style="list-style-type: none">1) Mohd Suffian Haji Haron (Chairman of the Audit Committee and Senior Independent Non-Executive Director)2) Daniel Ebinesan (Non-Independent Non-Executive Director)3) Izzat Othman (Independent Non-Executive Director)4) Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Independent Non-Executive Director). <p>Collectively, the Audit Committee possesses a wide range of necessary skills to discharge its duties. All members of the Audit Committee are financially literate, whilst one committee member is a member of MIA, and thus, fulfilling paragraph 15.09(1)(c) of MMLR, which calls for one member of the audit committee to be a member of a professional accountancy body.</p> <p>All members of the Audit Committee have undertaken continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules. During the reporting year, the Audit Committee members had attended a number of 16 training courses. Details of their training can be seen on pages 80 to 81 of the Company's Annual Report.</p> <p>During the Audit Committee Meetings, the members were briefed by the external auditor, Messrs. PricewaterhouseCoopers on the following key areas:</p> <ul style="list-style-type: none">• Financial Reporting developments;• Malaysian Financial Reporting Standards;• Malaysian Code on Corporate Governance; and• Other changes in regulatory environment. |

| | | |
|--|--|--|
| Explanation for departure : | | |
| | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure : | | |
| Timeframe : | | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.1

The board should establish an effective risk management and internal control framework.

| | | |
|---|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has established the necessary risk and internal control infrastructure encompassing the risk assessment process, internal control measures, organisational oversight and reporting function to instil the appropriate discipline to continuously improve risk management and internal control capabilities.</p> <p>Accordingly, the Group has undertaken the following:</p> <ul style="list-style-type: none">▪ Formalisation of risk management policy and procedures and adopted a structured and systematic risk management, monitoring and reporting framework which are tailored to the specific circumstances of the Group;▪ Appointment of risk officer to coordinate the Enterprise Risk Management activities within the Group;▪ Heightened risk awareness culture in the business process;▪ Compilation of the business units' risk profiles in relation to the Group risk parameters; and▪ Inculcated of a culture of continuous improvement in risk management and provided a system to manage the central accumulation of risk profiles data. <p>Details of the Group's Risk Management and Internal Control Framework are set out in its Statement on Risk Management and Internal Control, which is on page 83 to page 90 of the Company's Annual Report.</p> <p>The internal control mechanisms established by the Board are embedded within the organisation structure in all its processes. The internal control system is independently reviewed by the Group Internal Audit from Boustead Holdings Berhad (the immediate Holding Company of Pharmaniaga) to assess its adequacy and effectiveness.</p> |
| Explanation for departure | : | |
| | | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

| | | |
|--------------------|--|--|
| Measure : | | |
| Timeframe : | | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

| | | |
|--|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>Risk assessment, monitoring and review of the various risks faced by the Group are continuous processes within the key operating units, with the Risk Management Committee (a Management level Committee) playing a pivotal oversight function as delegated by the Board of Directors.</p> <p>The Board has further received assurance from the Managing Director and Chief Financial Officer that the Group's risk management and internal control systems are operating adequately and effectively.</p> <p>Further details are contained in the Statement of Risk Management and Internal Control which is on page 83 to page 90 of the Company's Annual Report.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

| | | |
|--|---|-------------|
| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

| | | |
|--|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The internal audit function of Pharmaniaga is carried out by the Group Internal Audit (GIA) of Boustead Holdings Berhad (immediate holding company) and has direct access to the Board through the Chairman of the Audit Committee and is independent of the activities it audits. GIA's authority, scope and responsibilities are governed by an Internal Audit Charter.</p> <p>The Audit Committee reviews and subsequently approves the Annual Internal Audit Plan and ensures GIA is accorded with appropriate standing and authority to facilitate the discharge of its duties.</p> <p>Comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries are undertaken on a regular basis. GIA provides assurance and recommendations to the Audit Committee on the Group's governance, risk management and internal control systems.</p> <p>The Audit Committee has access to the Head of GIA and is able to discuss significant internal audit matters in private if required.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

| | | |
|---|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Internal Audit Charter states that GIA personnel shall have impartial, unbiased attitude and avoid conflicts of interest in carrying out their duties. If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to the Audit Committee. Head of GIA, along with other internal audit personnel, are free from any family relationship with any Directors and/or major shareholder and do not have any conflict of interest with the Group.</p> <p>GIA adopts internal audit standards and best practices based on the International Professional Practices Framework (IPPF), promulgated by the Institute of Internal Auditors.</p> <p>At present, there is a total of 37 internal auditors within the GIA, with a dedicated nine (9) personnel dedicated for Pharmaniaga. The number of resources in the GIA is reviewed by the Audit Committee on a quarterly basis to ensure adequacy of resources to undertake the internal audit function. The Head of GIA updates the name and qualification of GIA personnel to the Audit Committee on quarterly basis to ensure competency of the internal audit function. GIA personnel are also encouraged to pursue the Certified Internal Auditor (CIA) examination and other professional certification. As of reporting date, there are six (6) CIAs in the GIA.</p> <p>The total expenses incurred for the internal audit work of Boustead during the financial year end 31 December 2017 was approximately RM320,889 (2016: RM313,395 (excluding GST)).</p> |
| Explanation for departure | : | |
| | | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

| | | |
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| Measure : | | |
| Timeframe : | | |

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>As stewards of the Company, Directors are accountable to shareholders as well as other stakeholders of the Company for the performance and operations of the Company. As such, the Board endeavours to ensure that communication with stakeholders is conducted in a regular and forthcoming manner.</p> <p>The Board aims to maintain a positive relationship with the different group of stakeholders through active two-way communication, and to promote and demonstrate a high standard of integrity and transparency through timely, accurate and full disclosure and to enhance the stakeholders' understanding of the Group, its core businesses and operations, thereby, enabling investors to make informed decisions in valuing the Company's shares.</p> <p>The Group leverages on a number of formal channels for effective dissemination of information to shareholders and other stakeholders, particularly through the Annual Report, announcements to Bursa Malaysia Securities Berhad, media releases, quarterly results analyst briefings, Annual General Meeting (AGM), and the Group's website.</p> <p>The Managing Director and Senior Management meet regularly with analysts, institutional shareholders and investors. Interested parties may contact the Investor Relations function at noraini.ali@pharmaniaga.com and/or tasneem.gsec@boustead.com.my for enquiries regarding investor relations matters of the Group.</p> <p>Pharmaniaga is also of the view that the AGM is an important opportunity to meet shareholders and address their concerns. At the AGM, the Managing Director will provide a presentation of the Group's annual operating and financial performance, followed by a Questions and Answers session during which the Chairman encourages shareholders' active participation, including clarifying and questioning the Group's strategic direction, business operations, performance and proposed resolutions. Senior Management of the Group are also present to handle other face-to-face inquiries from the shareholders.</p> |

| | | |
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| Explanation for departure : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure : | | |
| Timeframe : | | |

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

| | | | |
|--|---|--|--|
| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | <p>Whilst certain hallmarks of integrated reporting may be embodied in the Annual Report of Pharmaniaga such as qualitative sustainability indices contained within the Sustainability Report of the Company, it is on the whole not an integrated report based on the parameters set out by the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework.</p> <p>The Board would like to allow an advocacy period for the awareness of integrated reporting to be better appreciated by Management personnel before it is adopted. At present, the Board is of the view that the Company's Annual Report is comprehensive enough for stakeholders to make informed decisions.</p> | |
| | | <p>The current Annual Report provides stakeholders with a fairly comprehensive overview on the Company's financial and non-financial information including strategic performance. Components such as Management and Discussion Analysis, Corporate Governance Overview Statement and Statement of Risk Management and Internal Control form an integral part of the non-financial information. Information is also provided on the business model as well as the trends, outlook and prospects of the Group.</p> | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

| | | |
|--|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board recognises the AGM as an invaluable platform for shareholders to engage both the Board and Senior Management in a productive dialogue and provide constructive feedback that contributes to the overall performance of the Group. The Board therefore endeavours to provide shareholders with adequate time to consider the resolutions that will be discussed and decided upon during the AGM and to facilitate informed decision-making by the shareholders.</p> <p>In this regard, the notice for the upcoming AGM in 2018 was provided to shareholders on 13 March 2018, at least 28 days before the meeting, which will be held on 11 April 2018. This goes above and beyond Section 316(2) of Companies Act 2016 and paragraph 7.15 of Main Market Listing Requirements by Bursa Malaysia Securities Berhad which call for a 21-days' notice period for public companies or listed issuers respectively.</p> <p>The notice for AGM outlines the resolutions to be tabled during the said meeting and is accompanied with explanatory notes and background information where applicable, to shed clarity on the matters that will be decided at the AGM.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

| Application | : | Applied | | | | | | | | | | |
|--|-------------------------|---|------------------|----------|-----------------|-------------------------|----------------------|-------------------------|------------------------|-------------------------|--------------------------|-----------------|
| Explanation on application of the practice | : | <p>The Board acknowledges its responsibility to engage shareholders and provide meaningful responses to their questions. In demonstrating this commitment to shareholders, all Directors have attended the previous five (5) AGMs. This is aided by ensuring any general meeting is scheduled in advance to ensure full attendance of the Board.</p> <p>The Chairman of the Board encourages shareholders' active participation during AGMs and other general meetings by giving sufficient time to the floor during the Questions and Answers session.</p> <p>The Chairmen of the Board Committees of the Company are as follows:</p> <table border="1"><thead><tr><th>Board Committees</th><th>Chairman</th></tr></thead><tbody><tr><td>Audit Committee</td><td>Mohd Suffian Haji Haron</td></tr><tr><td>Nomination Committee</td><td>Mohd Suffian Haji Haron</td></tr><tr><td>Remuneration Committee</td><td>Mohd Suffian Haji Haron</td></tr><tr><td>Sustainability Committee</td><td>Daniel Ebinesan</td></tr></tbody></table> <p>The Chairmen of respective Committees were present to facilitate discussions and address any questions shareholders may have on matters that fall under the purview of the Committees.</p> | Board Committees | Chairman | Audit Committee | Mohd Suffian Haji Haron | Nomination Committee | Mohd Suffian Haji Haron | Remuneration Committee | Mohd Suffian Haji Haron | Sustainability Committee | Daniel Ebinesan |
| Board Committees | Chairman | | | | | | | | | | | |
| Audit Committee | Mohd Suffian Haji Haron | | | | | | | | | | | |
| Nomination Committee | Mohd Suffian Haji Haron | | | | | | | | | | | |
| Remuneration Committee | Mohd Suffian Haji Haron | | | | | | | | | | | |
| Sustainability Committee | Daniel Ebinesan | | | | | | | | | | | |
| Explanation for departure | : | | | | | | | | | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | | | | | | | | | | |
| Measure | : | | | | | | | | | | | |
| Timeframe | : | | | | | | | | | | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

| | | |
|--|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The location of the General Meetings have always been held in the Klang Valley at locations which are accessible by public transport.</p> <p>The upcoming 20th AGM on 11 April 2018 will be held at Royale Chulan Damansara, Petaling Jaya. The said hotel and the surrounding commercial premises have ample parking space, and the venue is within walking distance from the Mutiara Damansara Mass Rapid Transit (MRT) station.</p> <p>A shareholder of the Company can vote in person or appoint a proxy to attend and vote on his/her behalf. Voting at the AGM is by poll and the Company utilises an electronic voting system to expedite the voting and facilitate the tabulation process in a seamless manner.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT
CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

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