pharmaniaga

# DRIVEN BY RESILIENCE

## ANNUAL REPORT 2015

### DERIVING VALUE FROM STRENGTH

Our commitment to excellence is unwavering. With a foundation of strength built over the years, we are dedicated to deriving value from our core businesses, allowing us to grow stronger with time.

# INSIDE THIS REPORT


**DRIVEN BY RESILIENCE**

Pharmaniaga Berhad has strongly established itself as one of the nation's leading healthcare groups in a highly competitive business landscape. Having a passion for patients, we advocate doing the right things, the right way and with the right intentions. As such, we work towards improving public health by setting high standards in generic pharmaceutical, pooling resources of medical professionals, scientists and regulators across the globe. Driven by resilience, we are scaling new heights in the industry to create a positive impact on the lives of the communities that we touch.




# KEY DEVELOPMENTS 2015

**Halal certification obtained for Bangi manufacturing plant**

**Iqnyde, generic sildenafil citrate launched**

**Eight new products registered**

**Five new health supplements introduced under the Citrex product range**

**Two products granted bioequivalence status**

**Two new RoyalePharma pharmacy outlets established**


# ABOUT US

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

As part of our drive to become a total integrated healthcare solutions provider, our core businesses span across a wide spectrum of the industry. This includes logistics and distribution, manufacturing of generic pharmaceuticals, sales and marketing, as well as distribution of medical products and hospital equipment. Drawing upon the synergies of these activities, Pharmaniaga has expanded its reach to Malaysians through the establishment of community pharmacy.

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

# VISION MISSION

## OUR CORE VALUES

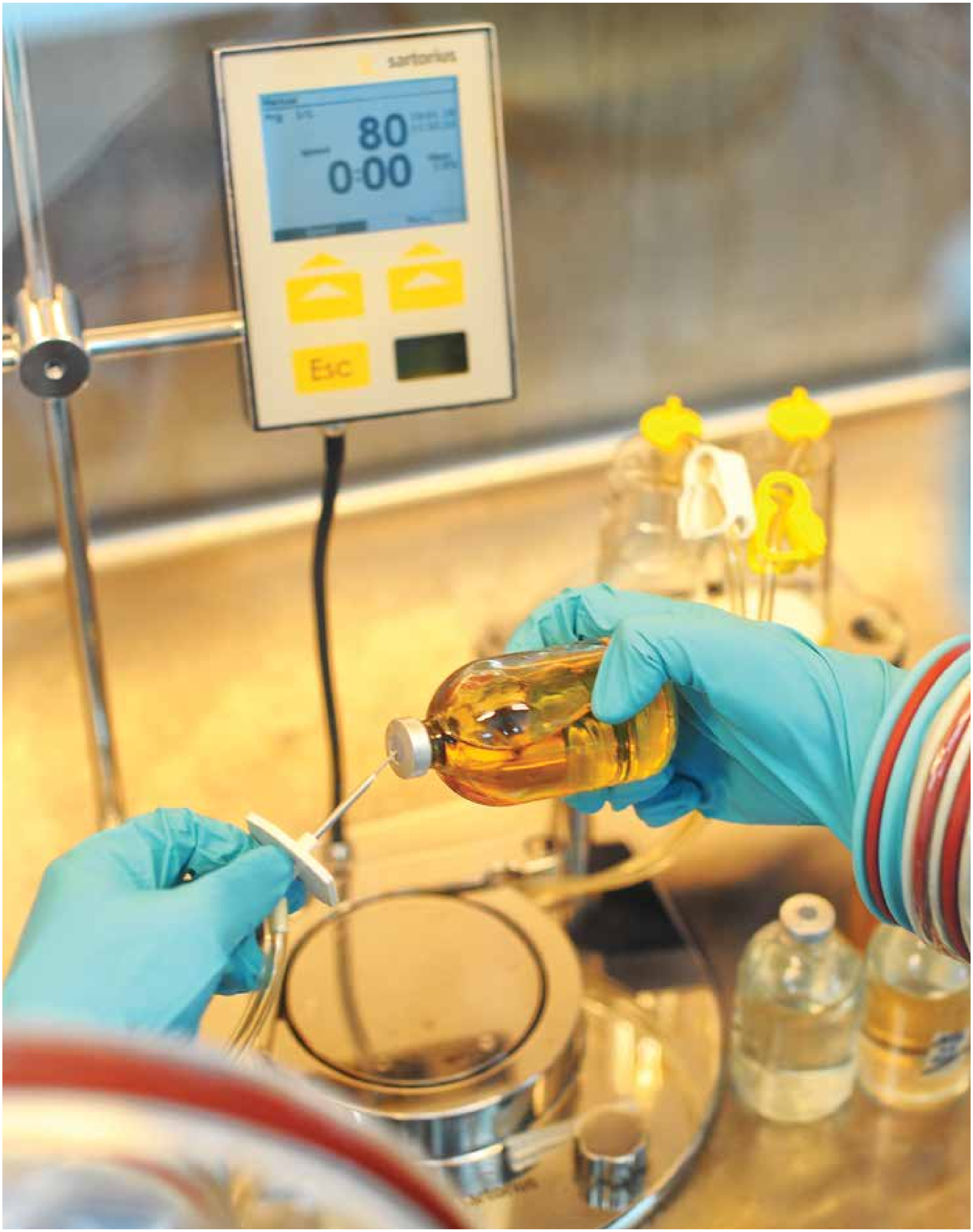
RESPECT • INTEGRITY • TEAMWORK • EXCELLENCE

### OUR VISION

The preferred pharmaceutical brand in regional markets

### OUR MISSION

Provide quality products and superior services by professional, committed and caring employees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# AT A GLANCE

REVENUE
RM2.2 BILLION

EBITDA
RM184 MILLION

PROFIT BEFORE TAX
RM113 MILLION

PROFIT AFTER TAX
RM85 MILLION

DIVIDEND
30 SEN

TOTAL ASSETS
RM1.5 BILLION

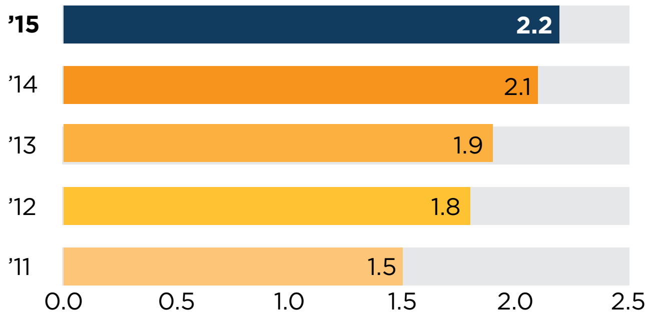
CAPEX
RM61 MILLION

EMPLOYEES
3,163

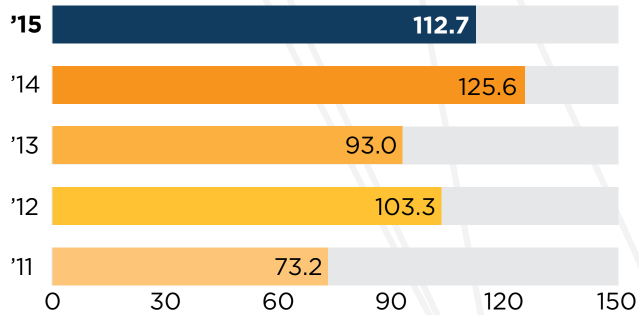
# FIVE-YEAR FINANCIAL HIGHLIGHTS

| All figures are in RM Million unless otherwise stated | | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| **FINANCIAL PERFORMANCE** | | | | | | |
| Revenue | | **2,189.3** | 2,122.9 | 1,946.6 | 1,812.3 | 1,521.0 |
| Profit before taxation | | **112.7** | 125.6 | 93.0 | 103.3 | 73.2 |
| Profit after taxation | | **84.6** | 94.2 | 56.8 | 63.2 | 52.8 |
| Net attributable profit | | **84.0** | 93.8 | 55.2 | 61.7 | 52.2 |
| Earnings per share | sen | **32.5** | 36.2 | 21.3 | 23.8 | 20.2 |
| Return on equity | % | **15.9** | 18.5 | 11.5 | 13.2 | 11.8 |
| Return on assets | % | **9.3** | 12.0 | 9.2 | 10.0 | 8.0 |
| Return on revenue | % | **5.8** | 6.6 | 5.5 | 6.5 | 5.1 |
| **DIVIDENDS** | | | | | | |
| Dividend payout | % | **92.4** | 77.2 | 75.1 | 66.8 | 61.1 |
| Dividend payment | | **77.7** | 72.5 | 41.5 | 41.2 | 31.9 |
| Net dividend per share | sen | **30.0** | 28.0 | 16.0 | 15.9 | 12.3 |
| Dividend yield | % | **4.7** | 6.1 | 3.6 | 4.3 | 4.7 |
| Dividend cover | times | **1.1** | 1.3 | 1.3 | 1.5 | 1.6 |
| **GEARING** | | | | | | |
| Borrowings | | **400.2** | 201.1 | 199.9 | 341.0 | 188.3 |
| Gearing | times | **0.8** | 0.4 | 0.4 | 0.7 | 0.4 |
| Interest cover | times | **5.9** | 8.4 | 7.3 | 7.9 | 18.6 |
| **OTHER FINANCIAL STATISTICS** | | | | | | |
| Net assets per share | sen | **204** | 203 | 188 | 182 | 180 |
| Price earning ratio | times | **19.6** | 12.6 | 20.9 | 15.4 | 13.3 |
| Paid up share capital | | **129.4** | 129.4 | 129.4 | 117.7 | 117.7 |
| Shareholders' equity | | **529.4** | 526.5 | 487.6 | 472.0 | 466.0 |
| Total equity | | **560.0** | 552.0 | 503.3 | 487.9 | 481.7 |
| Total assets | | **1,495.6** | 1,242.7 | 1,111.1 | 1,222.8 | 1,133.5 |

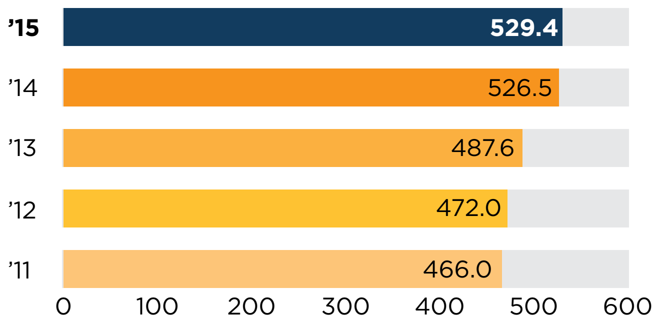
## Revenue
(RM billion)



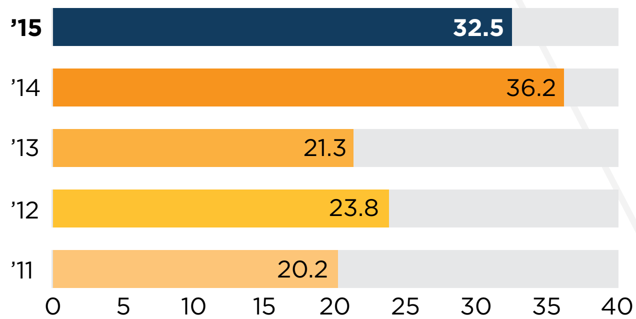

## Profit Before Taxation
(RM million)



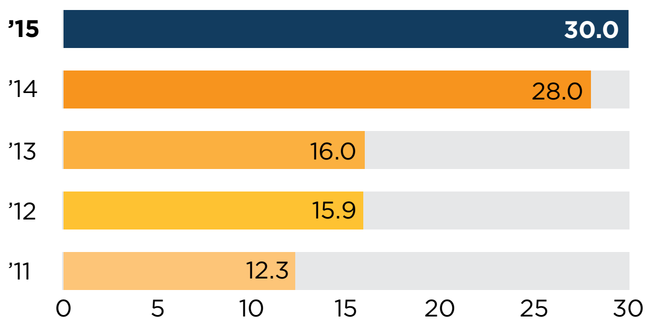

## Shareholders’ Equity
(RM million)



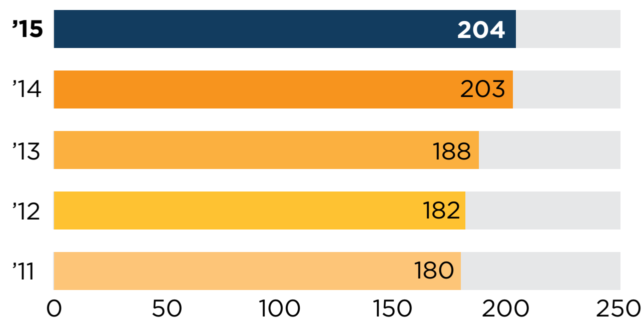

## Earnings Per Share
(sen)




## Net Dividend Per Share
(sen)




## Net Assets Per Share
(sen)



# CORPORATE INFORMATION

## DIRECTORS

**Tan Sri Dato' Seri Lodin Wok Kamaruddin**
Non-Independent Non-Executive Chairman

**Dato' Farshila Emran**
Managing Director

**Daniel Ebinesan**
Non-Independent Non-Executive Director

**Mohd Suffian Haji Haron**
Senior Independent Non-Executive Director

**Izzat Othman**
Independent Non-Executive Director

**Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah** (Retired)
Independent Non-Executive Director

## COMPANY SECRETARY

Tasneem Mohd Dahalan
(LS 0006966)

## STOCK EXCHANGE LISTING

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

## REGISTERED ADDRESS

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

## BUSINESS ADDRESS

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

## PRINCIPAL BANKERS

Affin Islamic Bank Berhad
Bank Islam Malaysia Berhad
CIMB Bank Berhad
Hong Leong Islamic Bank Berhad
Standard Chartered Bank Malaysia Berhad
The Bank of Nova Scotia Berhad

## AUDITORS

Messrs. PricewaterhouseCoopers
(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 Service 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

## NOMINATION COMMITTEE

**Chairman**
Mohd Suffian Haji Haron

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

## REMUNERATION COMMITTEE

**Chairman**
Mohd Suffian Haji Haron

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

# FINANCIAL CALENDAR

## FINANCIAL YEAR

1 January to
31 December 2015

### RESULTS

*First quarter*

Announced
18 May 2015

*Second quarter*

Announced
17 August 2015

*Third quarter*

Announced
26 November 2015

*Fourth quarter*

Announced
15 February 2016

## ANNUAL REPORT

Issued
7 March 2016

## ANNUAL GENERAL MEETING

To be held
29 March 2016

## DIVIDENDS

*First interim*

Announced
18 May 2015

Entitlement Date
3 June 2015

Payment
25 June 2015

*Second interim*

Announced
17 August 2015

Entitlement Date
3 September 2015

Payment
15 September 2015

*Third interim*

Announced
26 November 2015

Entitlement Date
11 December 2015

Payment
21 December 2015

*Fourth interim*

Announced
15 February 2016

Entitlement Date
3 March 2016

Payment
25 March 2016

# BOARD OF DIRECTORS

TAN SRI DATO' SERI
## LODIN WOK KAMARUDDIN
Chairman

DATO'
## FARSHILA EMRAN
Managing Director

## DANIEL EBINESAN
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

## MOHD SUFFIAN HAJI HARON
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

## IZZAT OTHMAN
INDEPENDENT NON-EXECUTIVE DIRECTOR

LIEUTENANT GENERAL DATO' SERI PANGLIMA DR
## SULAIMAN ABDULLAH
(Retired)
INDEPENDENT NON-EXECUTIVE DIRECTOR

# PROFILE OF DIRECTORS

Nationality/Age : Malaysian/66

Date of 1st appointment : 29 April 2011

Date of last re-appointment : 3 April 2013

Board Committee:
- Member of Nomination Committee
- Member of Remuneration Committee

Board meeting attended in the financial year : 4/4

Qualification(s):
- Bachelor of Business Administration and Master of Business Administration, The University of Toledo, Ohio, United States of America

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

Directorship in other than public listed companies/Occupations:
- Lembaga Tabung Angkatan Tentera
- UAC Berhad
- MHS Aviation Berhad
- FIDE Forum
- Badan Pengawas Pemegang Saham Minoriti Berhad
- Affin Bank Berhad
- Affin Islamic Bank Berhad
- Affin Hwang Investment Bank Berhad
- Axa Affin Life Insurance Berhad
- Boustead Properties Berhad

## TAN SRI DATO' SERI LODIN WOK KAMARUDDIN

### CHAIRMAN

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:
Nil

Working experience:
Tan Sri Dato' Seri Lodin is Chief Executive of Lembaga Tabung Angkatan Tentera and Deputy Chairman/Group Managing Director of Boustead Holdings Berhad. He is also Chairman of Boustead Heavy Industries Corporation Berhad. In addition, he is Deputy Chairman of Affin Holdings Berhad and 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 plantation, trading, financial services, property development to oil and gas, pharmaceuticals and shipbuilding. Tan Sri Dato' Seri Lodin is also a Chartered Banker, having been awarded with the professional qualification by the Asian Institute of Chartered Bankers (AICB) in November 2015.

## DATO' FARSHILA EMRAN

### MANAGING DIRECTOR

Nationality/Age : Malaysian/49

Date of 1st appointment : 25 March 2011

Date of last re-appointment : 31 March 2015

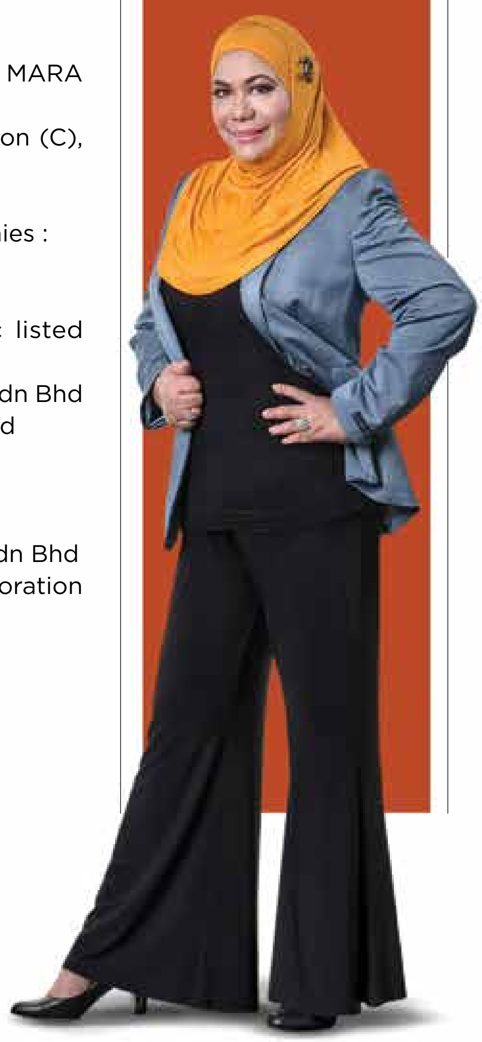
Board Committee: None

Board meeting attended in the financial year : 4/4

Qualification(s):
- Diploma in Office Management, MARA University of Technology
- Masters in Business Administration (C), Universiti Utara Malaysia

Directorship in public listed companies : None

Directorship in other than public listed companies/Occupations:
- Idaman Pharma Manufacturing Sdn Bhd
- Pharmaniaga Biomedical Sdn Bhd
- Pharmaniaga Logistics Sdn Bhd
- Pharmaniaga Marketing Sdn Bhd
- Pharmaniaga Pristine Sdn Bhd
- Pharmaniaga Research Centre Sdn Bhd
- Pharmaniaga International Corporation Sdn Bhd
- PT Errita Pharma, Indonesia



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:
Nil

Working experience:
Dato' Farshila was an Assistant Representative of SEVES Sediver France from 1990 to 1995, a public listed high voltage transmission line equipment company in France. She was later made the Malaysian Representative of that company until 2001.

She was a founder of Idaman Pharma Sdn Bhd prior to becoming the Managing Director of Pharmaniaga Berhad.

On a personal level, Dato' Farshila has won many awards including the "MBA Industry Excellence Award – Health Services" by The ASEAN Business Advisory Council Malaysia which she won in 2013 and the Anugerah Kesatria Puteri Korporat award, which she received in 2012 for her active role in Women Directors' Programme, an initiative of the Ministry of Women, Family and Community Development, Malaysia. Her latest award conferment is the "Masterclass Excellence Award for Woman CEO of the Year" in the Utusan Business Awards 2015.

# PROFILE OF DIRECTORS

Nationality/Age : Malaysian/70

Date of 1st appointment : 25 March 2011

Date of last re-appointment : 31 March 2015

Board Committee:
- Member of Audit Committee

Board meeting attended in the financial year : 4/4

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

Directorship in public listed companies:
None

Directorship in other than public listed companies/Occupations:
- Boustead Building Materials Sdn Bhd
- Boustead Construction Sdn Bhd
- Boustead Credit Sdn Bhd
- Boustead Electronic Commerce Sdn Bhd
- Boustead Engineering Sdn Bhd
- Boustead Petroleum Sdn Bhd
- Boustead Realty Sdn Bhd
- Boustead Reit Managers Sdn Bhd
- Boustead Weld Court Sdn Bhd
- Cadburry Confectionery Malaysia Sdn Bhd
- MHS Aviation Berhad

## DANIEL EBINESAN

### NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

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:
Nil

Working experience:
He 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 currently holds the position of Group Finance Director. He is responsible for all financial matters including acquisition of strategic businesses, treasury, risk management strategies and formulation of the Boustead Group's financial policies and tax planning.

He has been a member of the Board of Trustees of Kumpulan Wang Simpanan Kakitangan Estet Malaysia since 1996 and has served as Chairman of the Board of Malaysian Care from November 1988 to March 2011.

## MOHD SUFFIAN HAJI HARON

### SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Nationality/Age : Malaysian/70

Date of 1st appointment : 29 April 2011

Date of last re-appointment : 2 April 2014

Board Committee:
- Chairman of Audit Committee
- Chairman of Nomination Committee
- Chairman of Remuneration Committee

Board meeting attended in the financial year : 4/4

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

Directorship in public listed companies:
None

Directorship in other than public listed companies/Occupations:
- Affin Bank Berhad
- Affin Islamic Bank Berhad
- LK & Associates Sdn Bhd

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:
Nil

Working experience:
Encik Suffian has had a distinguished career in the Malaysian Civil Service, starting as a Diplomatic and Administrative Officer, attached to the Implementation and Coordination Unit of the Prime Minister's (PM) Department and subsequently to the Ministry of Public Enterprises. Whilst at the PM Department, he has also been 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 thirteen years of service, he left the Government Service to serve a GLC 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.

# PROFILE OF DIRECTORS

Nationality/Age : Malaysian/54

Date of 1st appointment : 25 March 2011

Date of last re-appointment : 3 April 2013

Board Committee:
- Member of Audit Committee
- Member of Nomination Committee
- Member of Remuneration Committee

Board meeting attended in the financial year : 4/4

Qualification(s):
LLB (Hons), Universiti Malaya

Directorship in public listed companies:
None

Directorship in other than public listed companies/Occupations:
- A partner of Messrs. Azzat & Izzat
- Pharmaniaga Logistics Sdn Bhd
- Pharmaniaga Biomedical Sdn Bhd
- Pharmaniaga International Corporation Sdn Bhd
- PT Millennium Pharmacon International Tbk
- PT Errita Pharma, Indonesia

## IZZAT OTHMAN

### INDEPENDENT NON-EXECUTIVE DIRECTOR

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:
Nil

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

Nationality/Age : Malaysian/60

Date of 1st appointment : 29 December 2011

Date of last re-appointment : 2 April 2014

Board Committee :
- Member of Audit Committee

Board meeting attended in the financial year : 4/4

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

Directorship in public listed companies :
None

Directorship in other than public listed companies/Occupations:
- Elite Guard Sdn Bhd
- Perdana Jaya Sdn Bhd

## LIEUTENANT GENERAL DATO' SERI PANGLIMA DR SULAIMAN ABDULLAH (RETIRED)

### INDEPENDENT NON-EXECUTIVE DIRECTOR

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:
Nil

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

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

# SENIOR MANAGEMENT TEAM

**Mohamed Iqbal Abdul Rahman**
Chief Operating Officer

**Norai'ni Mohamed Ali**
Chief Financial Officer

**Dato' Farshila Emran**
Managing Director

**Datin Shamsinar Hj Shaari**
Technical Director

**Abdul Malik Mohamed**
Logistics & Distribution Director

**Zulhazri Razali**
Commercial Director

**Sharifah Fauziyah Syed Mohthar**
Regulatory Affairs Director


FARMASI
ROYALE
Rx PHARMA
HEALTH
OTC
OTC
GREAT DEALS!
GREAT DEALS!

# AWARDS


Winner of
**Utusan Business Awards 2015 Masterclass Excellence Award for Woman CEO of the Year**


A winner for
**HR Asia's Best Companies to Work For In Asia 2015 Award**


Winner of
**2015 Frost & Sullivan Malaysia Excellence Awards Pharmaceutical Company of the Year (Generics Drug Category)**


Winner of
**2015 Malaysia's 100 Leading Graduate Employers for the Pharmaceutical Sector Award**

# NURTURING LEADERS

The mark of a good company is its ability to identify and build a leadership pipeline to ensure business continuity. Our succession planning programme nurtures our team of highly motivated and performance driven individuals who will ultimately helm the Group.

# DEAR SHAREHOLDER,

THE YEAR HAS BEEN A CHALLENGING ONE FOR PHARMANIAGA BERHAD. AMIDST AN INCREASINGLY DIFFICULT ECONOMIC LANDSCAPE, WE WERE ABLE TO DELIVER A SATISFACTORY PERFORMANCE, ACHIEVING AN INCREASE IN REVENUE DESPITE A DIP IN PROFIT. PROFIT BEFORE TAXATION FOR THE YEAR STOOD AT RM113 MILLION.

**TAN SRI DATO' SERI LODIN WOK KAMARUDDIN**
Chairman

# CHAIRMAN'S STATEMENT

Through the successful expansion of our portfolio of products across the region, as well as enhanced cost efficiency measures, we maintained our pole position within the pharmaceutical sector. On this note, I am pleased to present our annual report for the financial year ended 31 December 2015.

## ECONOMIC LANDSCAPE

The pharmaceutical sector demonstrated steady growth worldwide in 2015, with the US and Asia Pacific markets in particular leading in terms of sales. Population growth in emerging markets was also a notable contributor to the sector's performance.

Domestically, the Malaysian economy saw a marked slowdown, primarily due to the weakening Ringgit leading to rising costs and soft consumer sentiment. However, this was tempered by strong consumer demand for premium healthcare products and services. Coupled with this, pharmaceutical products were zero rated under the Goods & Services Tax (GST) system in the National Essential Medicines List, which also had a strong positive impact on the sector.

Malaysia's healthcare sector remains resilient and continues to support growth in the pharmaceutical sector. Through consistent cost saving initiatives and expansion of our product portfolio via research and development, the Group is well positioned to tap into the opportunities within this industry.

# CHAIRMAN'S STATEMENT

## FINANCIAL PERFORMANCE

Pharmaniaga achieved a revenue of RM2.19 billion for the financial year ended 31 December 2015, a 3.3% jump from RM2.12 billion last year. This was driven by contributions from strong results recorded by our Indonesian operations and the private sector business, which recorded a double digit growth, marking its best performance todate.

We closed the financial year with a profit after tax of RM85 million from RM94 million in the previous year. Although this was attributed to lower Government orders and high amortisation of the Pharmacy Information System (PhIS) project, it is mitigated by efficiency optimisation programmes that were implemented across our manufacturing plants.

Earnings per share ended at 32 sen for the year under review (2014: 36 sen), while net assets per share stood at RM2.04 (2014: RM2.03). Market capitalisation as at 31 December 2015 was RM1.6 billion, while shareholders' funds stood at RM529 million for the year ended 31 December 2015 compared with RM527 million in the previous financial year. Our gearing ratio stood at 0.8 times.

THE LEADERSHIP AND DRIVE OF OUR MANAGEMENT TEAM, AS WELL AS THE DEDICATION OF OUR EMPLOYEES, ENABLED US TO DELIVER OUR MANDATE

## DIVIDEND

In line with the Group's performance and its commitment to delivering shareholder value, the Board of Directors declared a fourth interim dividend of 7 sen per share, which will be paid on 25 March 2016. Total net dividend for the year will be 30 sen (2014: 28 sen), bringing total dividend payout to RM77.7 million. This represents a dividend payout ratio of 92.4% and a dividend yield of 4.7% based on the closing share price for the financial year.

## HUMAN CAPITAL

A high calibre talent pool that is strong, capable and driven by success is the core of Pharmaniaga's achievements.

To this end, we have established strong actionable programmes to nurture and enhance our human capital through training and development initiatives. We are confident that this will enable us to maintain our position as a leader in the sector across the region. We are mindful that our employees' efforts and dedication are key contributors for our growth.

As a reflection of the emphasis we place on developing our human capital, Pharmaniaga was the recipient of the HR Asia's "Best Companies to Work for in Asia 2015 Award". We were also honoured to receive most popular award for "Malaysia's 100 Leading Graduate Employers" for the pharmaceutical sector in 2015.

I am pleased to note that we have achieved the milestone of winning these awards for two consecutive years. This is a hallmark of our consistent efforts to create a fulfilling work life environment for our employees. It will certainly re-energise us to cater to the needs of our talent pool.

In line with our passion to reward our employees for their efforts, we look forward to the proposed implementation of a share issuance scheme comprising a share option plan and a long term incentive plan. We will be undertaking this scheme not only to incentivise our current talent pool, but to also attract future employees.

Our human capital is our greatest asset and we intend to continue nurturing, coaching and developing our employees' skills while also recognising their individual accomplishments at Pharmaniaga.

## COMMUNITY OUTREACH

The Group is ever conscious of the importance of reaching out to communities in need, whether by providing basic healthcare and medicines, contributions, or other forms of aid.

Following our efforts last year to provide aid to flood victims in the East Coast, Pharmaniaga contributed close to RM2 million to set up a Flood Relief Centre in Kelantan. The Centre ensured that victims had access to basic necessities, including food, water and medicine.

Meanwhile in the Klang Valley, during the height of the haze crisis, which saw air pollution readings reach critically unhealthy levels, Pharmaniaga worked to distribute face masks to the most affected areas.

True to our philosophy of reaching out to the needy, during the year, Pharmaniaga executed worthy programmes for both rural and *Orang Asli* communities, specifically to improve accessibility to meet their healthcare needs.


## OUTLOOK

Given pressures on our currency, a volatile global and regional economic outlook, and a pall on growth prospects, we expect 2016 to be a challenging year. Despite this, we are confident that Pharmaniaga will perform well.

As outlined in Budget 2016, the number of GST zero rated medicines, as well as the building of new clinics and hospitals nationwide, clearly demonstrate the Government's focus on improving healthcare for the *rakyat*.

With improved operational efficiencies and service levels, we are focused on delivering excellent service as part of our 10-year Concession Agreement with the Ministry of Health (MOH). In terms of research and development (R&D), I am pleased to note that our R&D team continues to develop new products from various therapeutic groups. We are also collaborating with multinational companies on speeding up development of our anchor products, which will serve to provide us with a first-to-market advantage.

The Group intends to expand the reach of its portfolio of products by widening its export market to countries within the European Union (EU). To this end, reviews of selected products are ongoing in order to complete the necessary registration. In tandem with this, we plan to mould our Indonesian manufacturing subsidiary, PT Errita, into an important manufacturing and export hub for the ASEAN market.

Leveraging on PT Errita's product lines, we also seek to grow our distribution subsidiary in Indonesia, PT Millennium Pharmacon Tbk, by exploring new, untapped markets spread across more than 20,000 hospitals, pharmacies and drugstores.

In the years to come, we hope to turn our focus towards regional growth and expansion throughout ASEAN. With a combined population of more than 600 million people and a collective GDP of USD2.6 trillion, the formation of the ASEAN Community at the end of 2015, makes the region the seventh largest economy in the world, with an expectation towards reaching the top four largest in the years to come. These are indeed great prospects for the ASEAN region, and we intend to tap this vast potential.


We remain optimistic about the sector's prospects. Our steady upward momentum, and the number of opportunities the coming year presents, will allow us to rise even further on the pharmaceutical value chain. Going forward, we are confident that Pharmaniaga will deliver growth, as we remain ever committed to enhancing shareholder value.

## ACKNOWLEDGEMENT

As we look towards the prospects ahead and are ready to take on the challenges that 2016 holds, I would like to take this opportunity to convey my deepest appreciation to the Board of Directors for their invaluable expertise and guidance in ensuring Pharmaniaga's success.

The leadership and drive of our management team, as well as the dedication of our employees, enabled us to deliver our mandate. On this note, I am honoured to congratulate the Managing Director, Dato' Farshila Emran for her conferment of the Masterclass Excellence Award for Woman CEO of 2015 at the upcoming Utusan Business Awards reception. On behalf of the Board, a heartfelt thanks to everyone in the Pharmaniaga family for your commitment and contribution to the Group.

Additionally, we would like to express our sincerest gratitude particularly to our key client, MOH, as well as our other customers, suppliers, partners and bankers, whose invaluable support has played a great part in our achievements over the years.

Last but not least, as we operate in a highly regulated sector, we thank the relevant Government bodies and authorities in Malaysia for their assistance and confidence in Pharmaniaga.

**TAN SRI DATO' SERI**
**LODIN WOK KAMARUDDIN**
**Chairman**
25 February 2016

# DEAR SHAREHOLDER,

THIS HAS INDEED BEEN A MEMORABLE YEAR. HAVING THE OPPORTUNITY TO GUIDE PHARMANIAGA BERHAD OVER THE PAST FIVE YEARS HAS BEEN A TRUE PRIVILEGE, AS THE GROUP CONTINUES TO EXPAND AND GROW BOTH IN MALAYSIA AND BEYOND OUR NATION'S BORDERS.

**DATO' FARSHILA EMRAN**
Managing Director

# MANAGING DIRECTOR'S REVIEW

Pharmaniaga has delivered a solid performance for the 2015 financial year, and we look eagerly ahead towards the opportunities that the coming year presents.

## FINANCIAL PERFORMANCE

Despite strong market challenges, the Group remained resilient, building on its solid foundation to deliver sustained results for the year. Revenue increased by 3.3% to RM2.19 billion, up from the previous year's RM2.12 billion. Although profit before tax experienced a dip compared with RM126 million last year, we still managed to achieve a profit of RM113 million.

This steady performance clearly demonstrates our strong operational efficiencies, focused cost management practices and highly capable talent pool.

## DELIVERING SHAREHOLDER VALUE

As a results of our earnings in 2015, earnings per share ended at 32 sen for the year under review (2014: 36 sen).

Our Key Performance Indicators (KPIs) for the year are as follow:

| KPIs | 2015 | 2014 |
|---|---|---|
| Return on Equity | 15.9% | 18.5% |
| Return on Assets | 9.3% | 12.0% |
| Net Dividend per share | 30 sen | 28 sen |
| Delivery Lead Time | > 99% | > 99% |

MANAGING DIRECTOR'S REVIEW

WE INTEND TO SOLIDIFY OUR COMPETITIVE EDGE IN THE MARKET THROUGH QUALITY PRODUCT OFFERINGS AND BY FURTHER ESTABLISHING OURSELVES AS A UNIQUE PROVIDER OF GENERICS AND LEADING BRANDS

Against an increasingly volatile economic backdrop, our Manufacturing Division delivered strong growth while our Logistics and Distribution Division recorded a satisfactory performance.

The Logistics and Distribution Division recorded a profit before tax of RM12.3 million, compared with RM40 million recorded last year. This was largely attributable to lower Government orders and higher amortisation for the Pharmacy Information System.

Our Concession Agreement with the Ministry of Health remains a core segment of the Group's business, representing 56% or RM1.2 billion of Pharmaniaga's revenue. We seek to enhance service levels in order to deliver a seamless experience to our customers by maintaining a 99.8% success rate in terms of order fulfilment and delivery.

We remain firmly committed to our motto, Passion for Patients. It is this philosophy that has driven us to enhance our service levels and improve our delivery time. This has subsequently had a direct impact on our earnings track record, given that our efforts to provide world class customer service and products to our clients, have garnered positive feedback.

As I have mentioned over the previous financial years, we are growing our non-concession business, and during this financial year, the private sector business has delivered record sales with a growth of 13% in 2015. One of the key mandates during this period which has been successfully achieved is a complete restructuring of the sales force. This has resulted in much stronger teams in various regions across Malaysia supported by a growing portfolio of viable products.

Our long term plan to build a strong, consumer centric pharmaceutical network is bearing fruit. Today, our RoyalePharma pharmacy network has six outlets within its portfolio providing high quality healthcare products and exceptional customer service. Through strategic collaborations, partnerships and alliances, RoyalePharma aims to increase its reach and impact on the community pharmacy sector in the coming years.

Our Indonesian operations under our listed subsidiary PT Millennium Pharmacon International Tbk registered strong earnings due to sales growth, which surpassed the industry average.


do it RIGHT
campaign pharmaniaga

The Manufacturing Division delivered a strong profit of RM100 million, in comparison with RM86 million in the year before. The 16.3% jump was primarily attributable to higher sales and a greater emphasis on improving cost management and manufacturing efficiencies.

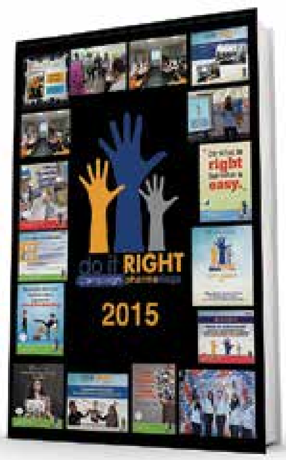
To cater for market demand, we expanded our product portfolio, specifically adding to our range of Halal certified products. This is in tandem with our growth plans to maintain not just a competitive edge in local markets, but to gain a steady reach internationally as well. Research and development has been essential to these efforts, with a target of over 200 new products in the next 10 years.

Product quality and efficacy is of utmost importance to us to ensure our leading position in the sector. We have complied fully with all regulatory guidelines and as we seek to venture into the European Union (EU), we have made significant progress, which has resulted in a series of reviews for products that are being produced by our plants.

As a responsible leader in the pharmaceutical sector, Pharmaniaga is a staunch advocate of regulatory compliance. With this in mind, we fully implemented the "Do It Right Campaign" (DIRC) at the start of 2015. The goal was to inculcate a culture of compliance and self accountability amongst all employees within the Pharmaniaga Group. The campaign focused on three specific themes throughout the year, namely:

- Compliance is Everyone's Responsibility (January – April 2015)
- Effective Communication (May – August 2015)
- Do What You Document, Document What You Do (September – December 2015)

A series of activities including dialogue sessions, in-house workshops and training, webinar sessions, contests, mini campaigns and internal communications were held on a weekly and monthly basis. Through these initiatives, we sought to encourage greater participation, awareness and interest in our employees to do things right in a holistic manner, ranging from better quality of work to raising productivity levels and improving communication.



DIRC aims to create an environment whereby adherence to the Good Manufacturing Practice, Good Distribution Practice, Good Distribution Practice for Medical Devices, International Organization for Standardization and other relevant regulations are second nature.

## A POSITIVE OUTLOOK

With the onset of a brand new year, economic forecasts from local and global perspectives certainly promise a mix of challenges and opportunities.

The outlook for the pharmaceutical sector remains positive and on an upward trend. Pharmaniaga is well positioned to capitalise on growth prospects, and we look towards 2016 with optimism.

On the home front, we intend to solidify our competitive edge in the market through quality product offerings, and by further establishing ourselves as a unique provider of generics and leading brands. In tandem with this, we continue to innovate via new product developments which include studies of our ongoing herbal biotechnology projects, *Kacip Fatimah* and *Patawali*.

In ASEAN, we remain focused on regional growth. With over 20,000 hospitals, pharmacies and drugstores offering great opportunities for further growth, the Indonesian market is one that is brimming with potential. We are already well positioned to tap into these prospects, with our existing Indonesian operations delivering strong results and a solid performance.

The formation of the ASEAN Economic Community, which promises greater trade, better connectivity and a more integrated market as a whole, will certainly allow us to widen our reach across the ASEAN region.

Internationally, we have made great strides with products registered worldwide. The Group now looks forward to fulfilling our goals for export into the EU market. We are working closely with our appointed EU partner to drive these plans to fruition.

We would not be able to achieve growth and strengthen shareholder value if not for the efforts of our talent pool. As a reward for the efforts, we will be executing a share issuance scheme comprising:

- Proposed Option Plan for the Board of Directors and selected senior management officers; and
- Proposed Long Term Incentive Plan for selected senior management officers.

Through this scheme, we look to retain and reward our star talents while attracting skilled and experienced individuals to join our force. We trust that the scheme will provide employees with motivation to increase their participation in the Group's operations and future growth while improving performance standards.

Looking ahead, we are confident that Pharmaniaga will perform well. We hope you will find the review of our two key divisions in the following pages both informative and satisfactory, and rest assured that the Group is prepared to achieve further expansion in line with our growth plans.

As always, delivering strong results above and beyond our mandate is at the core of our efforts, even as we strive to give back to the community as part of our corporate responsibility initiatives.

The Group's growth path and successes have truly been a collaborative effort. I take this opportunity to thank the Board of Directors for their continued support and faith in my leadership. My sincere appreciation goes to our management team and dedicated employees, whose hard work and commitment to the Group are invaluable.

Last but not least, the Group would like to thank our customers, suppliers, business partners, shareholders and relevant approving authorities for their contribution to our success.

**DATO' FARSHILA EMRAN**
**Managing Director**
25 February 2016

# LOGISTICS & DISTRIBUTION DIVISION


TOYOTA
UMW
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15

## THE LOGISTICS & DISTRIBUTION DIVISION ACHIEVED A PROFIT OF RM12.3 MILLION FOR THE FINANCIAL YEAR UNDER REVIEW, COMPARED WITH RM40 MILLION IN THE PREVIOUS YEAR. IN SPITE OF A CHALLENGING LANDSCAPE, OUR CONTINUOUS DRIVE TO GROW OUR PRIVATE SECTOR BUSINESSES CONTRIBUTED STRONGLY TO OVERALL RESULTS.

### MALAYSIA

Notwithstanding the tough economic conditions, the division recorded a revenue of RM2.17 billion. Our Concession Agreement with the Ministry of Health (MOH) remains a core segment within the Group. Of the orders received during the year, we were able to process 99.8% within the stipulated timeframe of seven to 10 working days. Utilising various modes of transportation, including helicopters, 4-wheel drives and boats, we have been able to deliver even to remote areas within East Malaysia smoothly and seamlessly. The speed and efficiency of our services to MOH health facilities nationwide has resulted in a notable reduction of complaints to a mere 0.14% against the number of orders processed.

We remain steadfast in our dedication to continuous improvement and high standards of service. To achieve this, we conduct regular process improvements for order management, cold chain handling, cold room facilities expansion, upgrading of our warehouses across Malaysia, and improving our vital Information Technology systems. These initiatives were developed and executed with a view to ensure that customer satisfaction remains our utmost priority. In tandem with our drive to deliver best-in-class service, our Customer Care Call Centre achieved 91% of incoming calls answered within 15 seconds.

Our Central Distribution Centre received positive ratings for Cold Chain Management compliance from MOH's National Pharmaceutical Control Bureau. Similarly, we also received positive ratings on Dangerous Drugs and Psychotropic Drugs Management compliance from the Pharmacy Enforcement Branch of the Selangor Health Department.

Dialogue sessions held with *Jabatan Kesihatan Negeri* demonstrated our quality of service, as we received an average of 92% in 'excellent' and 'good' ratings. From the two surveys conducted with public sector customers throughout the year, 95% of the respondents gave us 'excellent' and 'good' ratings.

# LOGISTICS & DISTRIBUTION DIVISION

In May 2015, we launched an Interaction Service Survey, which allows for interactive assessment of conversations with our Customer Service officers. Through this survey, we are confident that our mission to enhance customer experiences will be beneficial.

Our efforts to strengthen other segments of the Group alongside our concession business has yielded excellent results. The private sector business was a key driver in 2015, achieving double digit growth, its best performance todate.

In order to enhance our service levels and improve our reach within the market, a restructuring of our sales force was undertaken. This was implemented in January 2015 and enabled us to have a strong presence across all five regions comprising Central, Southern, Northern, Eastern and East Malaysia. As a result of our constant efforts to increase our reach, this led to a significant jump in sales compared with past years.

The Group further widened its portfolio of products in the nation, successfully obtaining registration approval for eight new products, ranging from local anaesthetic, emollients and loop diuretics. An additional 20 applications were also submitted during the year.

Our collaborations with third party manufacturers also resulted in the registration of two new products under the anti-pyretic and health supplement range. In total, Pharmaniaga now promotes a significant number of 480 products in the market.

In line with global trends, our generic products, particularly Zithrolide and Aspira, registered strong growth. Other products including Citrex, Simvastatin, Co-Amoxyclav and Xylid also performed well in the market throughout the year.

## TOTAL PRODUCTS IN THE MARKET

**480**

Our latest product, Iqnyde, is among the first-to-market generic sildenafil citrate. This competitive edge has resulted in encouraging sales todate, which continues to be on an upward trend. As such, we expect to see further growth in the years ahead.

We have continued to build on our presence in the private hospital sector, supported by partnerships with established manufacturers worldwide, enabling us to offer a winning combination of high quality generics and innovative brands.



During the year, we also successfully commenced rollout of our Pharmacy Information System (PhIS). Implementation has been ongoing throughout the year, and is expected to be fully operational in the coming years.

By enhancing operational efficiency and improving end user experiences at Government hospitals and clinics across the nation, PhIS will greatly advance the ease of pharmacy and healthcare services. We are confident that the system will greatly assist in improving patient safety as it eliminates medication prescription errors, by performing validation crosschecks against established drug databases to mitigate risks of interactions and allergies to drug prescriptions.

As a market leader in the pharmaceutical industry, the Group is fully aware of MOH's need to track supply and demand at pharmacies in hospitals and clinics.

With this in mind, we have designed PhIS to assist MOH with inventory management, whilst also providing patients with the convenience of specifying their preferred location for collection of medicines. Importantly, PhIS is also a central database, able to provide real-time information nationwide to MOH.

We have seen steady growth in the community pharmacy sector via our RoyalePharma chain of pharmacies. The opening of RoyalePharma's sixth outlet in Emerald Avenue, Selayang took place in November 2015. We target to open more outlets in the coming years, in keeping with our goal of providing quality pharmaceutical products and services to the general public.

To this end, RoyalePharma has formed strategic partnerships with other independent pharmacies and aims to widen this network of alliance members over the coming financial years.

## INTERNATIONAL MARKETS

The Group continues to focus on growing our international operations, both in the ASEAN region and beyond.

In Indonesia, our listed subsidiary PT Millennium Pharmacon International Tbk (MPI) delivered excellent results, with sales growth well above the industry average. MPI registered RM486 million (Rp1.71 trillion) in net sales in the financial year under review, compared

with RM399 million (Rp1.44 trillion) in the previous year. Overall, sales revenue has doubled since 2010, as a testament of continuous efforts to tap into further growth opportunities within Indonesia's expansive market, whilst also ensuring operational excellence.

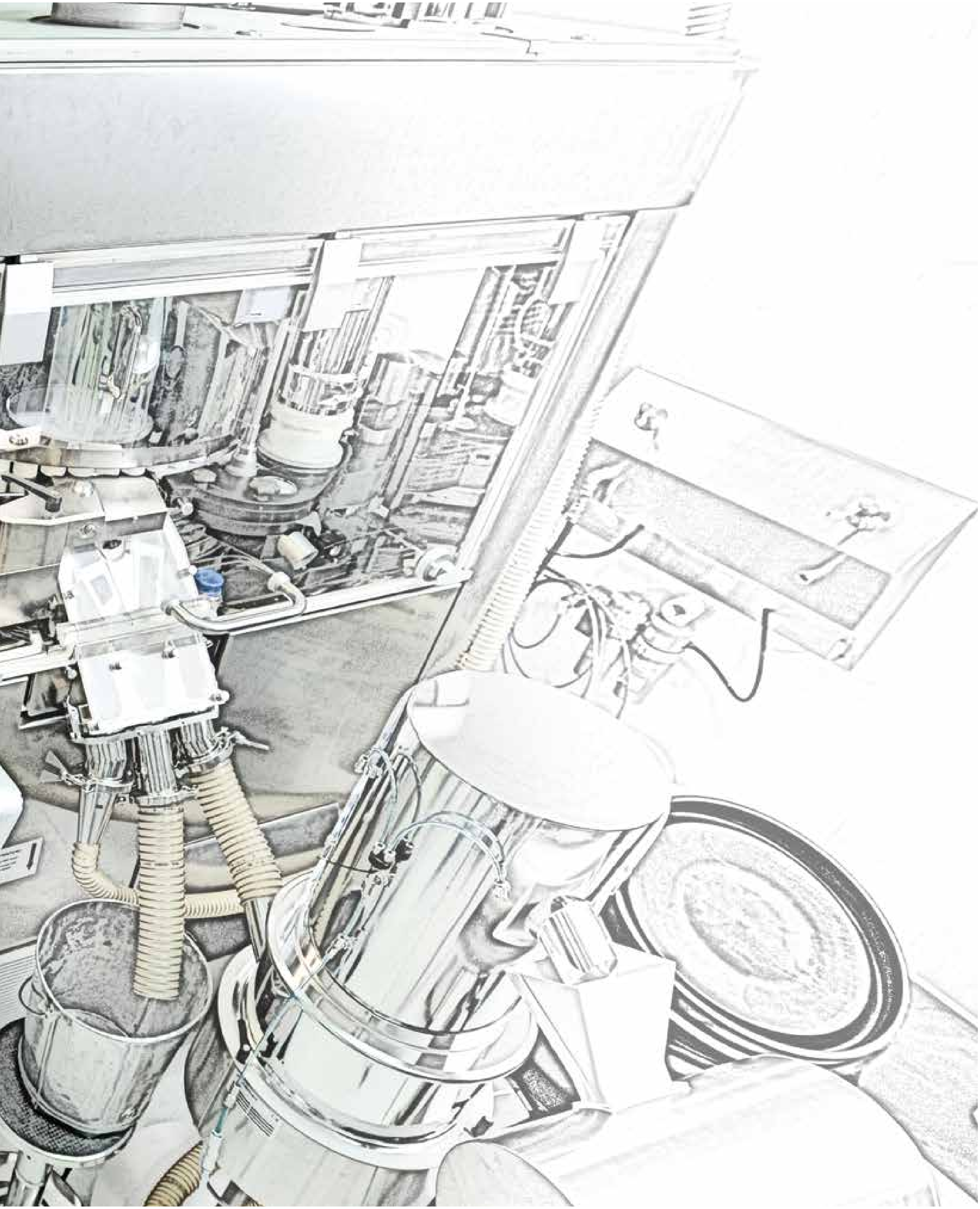
In line with this positive growth trend, MPI has made long term investments with a view towards expanding its storage capacity and cultivating a more conducive working environment in various branches across Indonesia. This will also enable greater synergies with Pharmaniaga's Indonesian subsidiary, PT Errita Pharma, allowing for even further business expansion.

Broadening its portfolio and reach, MPI collaborated with PT AEON Indonesia for the opening of its first community pharmacy, Apotek Millennium Pharma, which commenced operations in May 2015 at AEON Mall, BSD City, Tangerang, Jakarta. In addition to this, MPI also plans to further diversify its business into over the counter medication and medical disposable products.

With these expansion plans in place, it has become very crucial for our operations to achieve Good Distribution Practice (GDP) certification. Todate, one branch has been GDP certified in Jakarta, with another 16 branches targeting certification.

To capture the growth in the medical devices sector, we are broadening our focus to include more devices in our portfolio of offerings. We are pleased to note that 10 new products have been registered with the Medical Device Authority in Indonesia.

# MANUFACTURING
## DIVISION




## THE MANUFACTURING DIVISION DELIVERED A STRONG PERFORMANCE FOR THE YEAR UNDER REVIEW, ACHIEVING A PROFIT OF RM100 MILLION. THIS MARKED AN INCREASE OF 16.3% FROM RM86 MILLION IN THE PREVIOUS FINANCIAL YEAR, AS A RESULT OF HIGHER SALES FROM GOVERNMENT TENDERS AND ONGOING EFFICIENCY OPTIMISATION PROGRAMMES IMPLEMENTED ACROSS OUR MANUFACTURING PLANTS. IN ADDITION, THE COMMERCIALISATION OF EIGHT NEW PRODUCTS UNDER OUR PORTFOLIO HAD A DIRECT POSITIVE IMPACT ON EARNINGS FOR THE YEAR.

### OUR PLANTS

We continue to focus our efforts on improving our manufacturing facilities to support the Group's growth momentum. Notably, production capacity has increased at our oral solid dosage plants, as a result of upgraded facilities and equipment. We are also steadily boosting our manufacturing capabilities particularly for Small Volume Injectables.

In addition, we will complete the commissioning of the Lyophiliser by early 2016. This will allow delicate, unstable or heat sensitive products to be freeze dried at low temperatures, thus increasing the shelf life of the drug products. Freeze dried products, which can be reconstituted swiftly in emergency situations, are highly valued. As such, the Lyophiliser is a crucial enhancement, enabling entrance into new markets.

Given that Malaysia holds a pole position in the Halal market by virtue of the fact that the Government has invested enormous resources in the Halal sector, Pharmaniaga too has invested strongly to boost our participation in this market. With our Bangi plant having successfully obtained certification, three of our plants are now officially Halal certified, which will undoubtedly allow us to make great strides in this sector moving forward.

In view of the vast potential this segment presents, we have also taken the initiative to increase our over the counter product range that will be included on the Department of Islamic Development Malaysia's (JAKIM) list of Halal certified products. This will certainly add to our competitive advantage within the sector as we anticipate a surge in demand.

The Group's continuous efforts to optimise costs and maximise efficiency have produced tangible results. Several initiatives including batch consolidation, process improvements and enhanced procurement exercises effectively lowered manufacturing costs during the year.


# MANUFACTURING DIVISION

COST SAVINGS
**RM3.3 MILLION**

As a testament to the efficiency of these measures, Pharmaniaga successfully realised cost savings during the year of RM3.3 million. This was in part from savings in packing materials, as a direct outcome of favourable price negotiations for some of our products. Additionally, product process improvements and batch consolidation measures at our Sungai Petani plant, not only contributed to these savings, but also saw the plant achieve 100% of its production plan. Similarly, our Seri Iskandar plant attained savings from production process improvements for two major products.

Meanwhile, our "Do It Right Campaign" has increased awareness of the need for stronger compliance levels. Enhancements to our quality systems and a steadfast commitment to meeting regulations including current Good Manufacturing Practice ensured that we continuously meet all the requirements.

As part of our plans to expand our presence in the European Union (EU), selected product dossiers by our manufacturing plants are being reviewed by an appointed EU partner. Upon completion of the review, product registration and site inspections by the EU inspection body would take place.

In Indonesia, we strive to be a leading manufacturer whilst maintaining the highest standards of quality, allowing us to become an export hub within the ASEAN region.

## RESEARCH AND DEVELOPMENT

Research and development (R&D) plays a crucial role in Phamaniaga's expansion plans. The Group's R&D efforts continue to be central to the Division, as this will provide Pharmaniaga with a strong competitive edge in both local and international markets.

To this end, we are wholly focused on developing new quality products which will add to our existing portfolio.

Efforts are well underway, and we are on-track to deliver upwards of 200 new products by 2021. These products range from a variety of therapeutic groups including cardiovascular, diabetes, infectious diseases, respiratory and oncology products.

To complement and support these endeavours, we also collaborate with other multinational companies, with the aim of accelerating the development of anchor products.

During the year, we also successfully grew our product portfolio internationally. Three new products were registered in Brunei, and one in Hong Kong. In total, we currently have 197 approved registrations in 12 countries worldwide, which include seven ASEAN countries, Macau, Hong Kong, Sri Lanka and Kenya. We remain committed to increasing our portfolio on a global front, and have submitted 21 new applications for product registration, namely for one product in Brunei, two in Taiwan, two in Cambodia, four in Nigeria, 11 in Maldives and one in Portugal.


IMA ACTIVE


Above all, we are committed to ensuring the quality and efficacy of our products. Pharmaniaga places the utmost priority on carrying out compliance in preclinical and clinical studies, in accordance with Good Laboratory Practice and Good Clinical Practice guidelines. Through this, we are involved in clinical investigations for product complaints, clinical reviews on product quality and pharmacovigilance activities.

In accordance with the aforementioned guidelines, we conduct bioequivalence (BE) studies on a regular basis to ensure that our generic products containing schedule poisons are fully bioequivalent to the innovator products and clinically interchangeable.

At present, Pharmaniaga has a total of 64 products which have been granted satisfactory BE status, with additional products pending evaluation by the Drug Control Authority. More BE studies will also be undertaken in the near future.

In line with the Government's National Key Economic Area Entry Point Projects, we embarked on the *Kacip Fatimah* and *Patawali* projects with the aim of advancing herbal biotechnology in Malaysia. With advancements in the pharmaceutical industry supported by experts across various industries and fields, the Group sought to collaborate with scientists and researchers not only from the Government but also from academia.

We collaborated with the Ministry of Science, Technology and Innovation (MOSTI), Boustead Estates Agency Sdn Bhd, University Sains Malaysia and the University of Nottingham on the *Kacip Fatimah* project. From plant cultivation and propagation, development of standardised extracts and preclinical studies to product development, manufacturing of the final prototype and clinical trials, we hope to ultimately achieve the end result of commercialising *Kacip Fatimah* as a phytomedicine (botanical drug) with scientifically proven medicinal claims.

In collaboration with the Forest Research Institute Malaysia, we have successfully completed preclinical studies for the *Patawali* project. Final reports have been submitted to MOSTI and we look forward to the next phase of research.


KAZIM ELIAS

# CORPORATE VALUES

Our corporate values are reflected in our Corporate Responsibility programmes, which we carry out internally and externally. We believe in the power of the human touch in changing the world. We place a high value on listening to our communities and striving to be a good global corporate citizen. We honour our promises and through sincere relationships, we build better, stronger and more sustainable communities where we do business.

## LEADING BY EXAMPLE

"Being homeless is not a choice, but we tend to forget this because we take the roof over our heads, food on our table and shoes on our feet for granted. Getting acquainted with the homeless makes me realise how resilient they are and how much we can learn from them."

**Dato' Farshila Emran**
Managing Director

“Recycling. Sounds easy. Are people doing it? Not really. On a personal level, we spend too much time in the here and now that we forget about sustaining our environment for the future. Recycling is one of the best ways we can use our resources to effectively change our children’s lives for the better.”

**Mohamed Iqbal Abdul Rahman**
Chief Operating Officer

“If I open my son’s closet and see clothes that have never seen the light of day for more than a year, I realise how fortunate some children are. On the other hand, some kids do not even have the luxury of wearing a decent school uniform. Helping to choose and buy school outfits for orphans is a cleansing process for my soul.”

**Norai’ni Mohamed Ali**
Chief Financial Officer


“I spend time with the *Orang Asli* community to remind me that I am no better than anyone else. There is so much we can learn from them. Their resilience and independence surpass that of any urban residents. Their existence, the sound of their voices and the touch of their hands all tell us that we need each other to have a spiritually enriched life.”

**Datin Shamsinar Hj Shaari**
Technical Director

“ The resilience that I have developed from all these years growing with Pharmaniaga has taught me what good coaching is. Everybody needs a mentor, someone to look up to. So, while winning a badminton game is satisfying, coaching others to become winners is even more gratifying. ”

**Abdul Malik Mohamed**
Logistics & Distribution Director

“ Most people think that going on a road trip is all about escaping from the corporate rat race. Whether I take the familiar route or the one less travelled, I ride with a sense of purpose. When I visit a town, I pay homage to the town's orphanages. They remind me of others that are less fortunate. ”

**Zulhazri Razali**
Commercial Director

“ On weekdays, we're always in the circle of workmates attending to endless meetings and discussions. So, it is rejuvenating when we can spare our weekend to join a different circle of people. In my case, I enjoy telling fairy tales and moral stories to children. Children story telling is an enriching experience that keeps my life balanced. ”

**Sharifah Fauziyah Syed Mohthar**
Regulatory Affairs Director

## Employee Welfare

Pharmaniaga constantly find ways of enriching employees' welfare to attain better work-life balance. In addition to claimable expenses for travelling and subsistence, Pharmaniaga gives out daily lunch subsidy and monthly RoyalePharma vouchers which are redeemable at RoyalePharma outlets.


## Exam Motivation Seminar

An Exam Motivation Seminar was organised for the employees' children to prepare them for their examinations. 49 children benefited from this seminar.

## Tuition Subsidy

First introduced in 2012, employees with children sitting for major examinations for the year are entitled to claim tuition fees. In 2015, 161 children enjoyed this benefit.

## Academic Achievement Award

Pharmaniaga recognises the accomplishments of high performing children of the employees. Those who achieved exceptional results in their UPSR, PT3 and SPM examinations were rewarded with Academic Achievement Award. In 2015, there was a total of 79 recipients.

## Sports & Recreation Club

Staying in shape while having a lot of fun has always been the Sports & Recreation Club's mantra for every activity that they have organised.

In 2015, indoor and extreme games such as Pharma Race, SkyTrex and badminton were organised by the club for employees to join.


## Spiritual Enhancement

Pharmaniaga is mindful of the importance of spiritual wellbeing. Major events such as *Awal Muharam, Maulidur Rasul* and *Isra' wal Mikraj* were celebrated with talks by esteemed speakers including Datuk Ustaz Mohd Kazim Elias, Ustaz Don Danial Don Biyajid, Ustaz Haji Ahmad Dusuki Abd Rani and Ustaz Zul Ramli M Razali.


## Birthday Celebration

Birthdays are fondly celebrated in Pharmaniaga. During monthly assemblies, employees whose birthday fall within the month receive a gift each and share a birthday cake from the Company. In addition, employees are given a special leave which they can apply on their birthday or the following weekday should the birthday fall on a weekend.

## Future Plans

Pharmaniaga plans to nurture its workforce and ensure work-life balance by providing a childcare centre and a nursing room for breastfeeding mothers. In addition, Pharmaniaga will introduce study grants, where employees will be sponsored 50% of the study fees should they wish to further their studies at selected universities.

# CORPORATE VALUES : EXTERNAL

## Internship Programme

Pharmaniaga provides internship opportunities to undergraduates to give them an experience in the corporate world.

Various fields are offered such as logistics, manufacturing, marketing, community pharmacy as well as human capital management, finance and administration. The internship intake for 2015 involved 134 undergraduates.

## 1 Billion Education Fund

The fund is managed by UiTM Alumni and its main objective is to assist poor *Bumiputera* students in higher learning institutions. Pharmaniaga contributed RM300,000 to the fund.


## Collaboration with Universities

Besides providing industrial training for undergraduates, Pharmaniaga rewards the best pharmacy students from selected universities with the Book Prize Award, the Pharmaniaga Excellence Award and the Convocation Award. Pharmaniaga also engages graduates under the SL1M (*Skim Latihan 1 Malaysia*) and GEMS (Graduate Employability Management Scheme) programmes.


## You're Somebody's Type

In tandem with Pharmaniaga's corporate philosophy, Passion for Patients, we organised our second annual blood donation drive "You're Somebody's Type" at eCurve, Mutiara Damansara. Over the course of two days, we campaigned for greater awareness on the importance of donating blood and collected more than 400 bags of blood.

## UKEC Career Fair 2015

Pharmaniaga participated in United Kingdom and Eire Council (UKEC) Career Fair 2015 to promote career opportunities that were available in Pharmaniaga to Malaysian UK graduates and experienced candidates working in the UK. Held at Lancaster London Hotel in London, the event included a career talk, interview sessions and a corporate luncheon.

## Prospects for Pharmacists

With RoyalePharma community pharmacy, Pharmaniaga is able to offer entrepreneurship opportunities to young pharmacists.

In addition, our manufacturing plants accept pharmacy degree students who look to complete their Provisionally Registered Pharmacist programme.


## *Skuad Operasi Sihat 1Malaysia* (SOS1M)

SOS1M is a team of volunteers who do not only perform free health screening, but also create awareness on healthy lifestyle for rural and marginalised populations. The SOS1M vehicle is equipped with basic facilities to conduct health checks. Since SOS1M's inception in 2007, more than 25,000 people have benefited from the programme. In 2015, a total of 28 missions were accomplished.

## Edutainment at Kidzania Kuala Lumpur

Pharmaniaga has set up an establishment known as Citrex Vitamin Research Institute for children to experience role playing as researchers at a mockup manufacturing plant. Besides being taught how vitamins are made, children learn about the importance of cleanliness and taking vitamins for their good health. For 2015, we sponsored 60 children from selected orphanages.

CORPORATE VALUES : **EXTERNAL**

## Back-to-School Programme

Pharmaniaga has helped to lighten the burden of the less fortunate children from *Pertubuhan Kebajikan Ehsan Ash-Shakur* (PEKEAS) and *Pusat Jagaan Amal Yatim & Miskin Sri Kundang* by reaching out through the "Pharmaniaga Back-to-School Programme" in December 2015. A total of 60 children from both organisations were chosen to receive basic school necessities such as school uniforms, shoes, stationery sets and school bags for the new school session.

## #sehatisejiwa

In support of the 2015 National Day Celebration, Pharmaniaga sent a team to participate in the annual Merdeka Parade held at Dataran Merdeka, Kuala Lumpur.

In line with the slogan *"#sehatisejiwa"*, this parade was cheered on by staff from various divisions and departments in Pharmaniaga to uplift the spirit of unity and being together as one nation.

## *Ramadan/Syawal* celebration with PT Millennium Pharmacon International Tbk (MPI), Jakarta

In conjunction with the holy month of *Ramadan*, MPI branch in Bintaro, together with the local mosque committee handed over contributions to orphans.

In addition, an *Aidilfitri* celebration was organised at the central warehouse in Cakung. Together with a group of local residents and orphans, representatives from all 30 MPI principals also joined the celebration.



## *Qurban* with MPI

MPI also celebrated *Aidiladha* by carrying out *Qurban* activity at its branches namely, Tasik Malaya, Semarang, Malang and Batam. The distribution of meat brought joy to the local community.

## *Sahabat Korporat Tabung Haji*

Pharmaniaga collaborated with Tabung Haji in the *Sahabat Korporat Tabung Haji* programme. This collaboration entered the third year in 2015 where Pharmaniaga contributed surgical gloves and masks needed by the Tabung Haji Medical Team and pilgrims.

## CORPORATE VALUES : EXTERNAL

### *Senyuman Aidilfitri*@Kemubu

In 2015, Pharmaniaga continued to lend assistance to the victims and families displaced by the floods that hit the East Coast of Malaysia in late 2014. We provided food aid to the victims in Kampung Kemubu, the worst hit village in Dabong, as they prepared for the *Aidilfitri* celebration.

### *Aidilfitri* Goodies for the Army

Pharmaniaga recognises and appreciates the dedication of our men and women in the army. We contributed RM100,000 to *Tabung Angkatan Tentera Malaysia* for the supply of *Hari Raya* goodies to the servicemen who worked during *Hari Raya*.


### Joy of *Syawal* with *Orang Asli* Broga, Semenyih

Pharmaniaga's SOS1M team collaborated with TV AlHijrah's "Dr. Muhaya Dot Com" programme to bring joy for the *Orang Asli* community in Kampung Broga, Semenyih. We contributed PVC water pipes in order to improve water supply to the village.

### Breaking of fast with orphans

Through its *surau* committee, Pharmaniaga organised the breaking of fast with the children of PEKEAS and *Pusat Jagaan Amal Yatim & Miskin Sri Kundang*. At this event, Pharmaniaga gave away *Raya* money packets to the children and contributed RM100,000 *zakat* payment to the charity organisations.

## Vendor Development Programme

Pharmaniaga nurtures its vendors via the Vendor Development Programme (VDP) which aims to enhance the capabilities of *Bumiputera* manufacturers in the pharmaceutical industry. In 2015, VDP organised five training sessions on various topics including quality management, regulatory, supply chain and finance for the vendors. Through this programme, we also took up exhibition booths at events for vendors to exhibit their products and network with their target audience. In addition, our VDP team conducted site visits to the vendors' premises to gather information pertaining to supplies and their business growth plan.


## Face Mask Distribution

More than 20,000 face masks were distributed all over Selangor, Kuala Lumpur and Putrajaya during the haze crisis that hit the country. This was part of Pharmaniaga's efforts to create awareness about air polution and educate the public on steps to be taken during haze conditions.

## *Kasih Ramadan* TV AlHijrah

In conjunction with the Holy month of *Ramadan*, Pharmaniaga collaborated with TV AlHijrah for the *Kasih Ramadan* programme. Through this programme, Pharmaniaga reached out to the community by contributing and participating in various social activities. Among them was visiting children diagnosed with cancer, breaking fast with traffic officers on duty from Tun H.S. Lee police station and lending a hand to the old folks home at *Rumah Seri Kenangan*, Cheras.

# STATEMENT ON CORPORATE GOVERNANCE

**THE BOARD OF DIRECTORS (THE BOARD) STRONGLY BELIEVES THAT HIGH STANDARDS OF CORPORATE GOVERNANCE PRACTICES ARE ESSENTIAL FOR DELIVERING SUSTAINABLE VALUE, ENHANCING FINANCIAL PERFORMANCE, SAFEGUARDING THE INTEREST OF ALL STAKEHOLDERS WHILST PURSUING ITS CORPORATE OBJECTIVES IN ENHANCING PASSION FOR PATIENTS.**

The Board, management and staff of the Pharmaniaga Berhad Group (Group) is aware of the importance of governance and acknowledges the Principles and Best Practices as set out in the following guides (the Guides):

i. Companies Act, 1965;
ii. Malaysian Code on Corporate Governance 2012 (MCCG 2012);
iii. Corporate Governance Guide: Towards Boardroom Excellence by Bursa Securities - 2nd Edition (CG Guide); and
iv. Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia).

## The Overview

The Board delegates certain responsibilities to the Board Committees, all of which operate within defined Terms of Reference to assist the Board in the execution of its duties and responsibilities.

The Board Committees include the Audit, Nomination and Remuneration Committees. The respective committees report to the Board on matters considered and recommendation thereon. Each Committee will review and elaborate on matters tabled before it and make appropriate recommendations to the Board for approval.

The Board, with its collective and overall responsibility in leading and directing Pharmaniaga's strategic affairs, has the ultimate responsibility for corporate governance and plays a key role in charting the vision and mission, strategic direction, development and control as well as overseeing the investments of the Group. The Board believes that effective corporate governance is premised upon three important cornerstones namely, independence, accountability and transparency.

The Board is pleased to present the Corporate Governance Statement for the financial year ended 31 December 2015 charting Pharmaniaga Berhad's (Company) application and compliance with the principles and recommendations as set out in the Guides.

## PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

The Board has the overall responsibility for good corporate governance, strategic direction and investments of the Group. The Board recognises the key roles in setting the strategic direction and policy regarding the business affairs of the Group for the benefit of shareholders and other stakeholders. The Board has assumed, amongst others, the following major responsibilities in discharging its fiduciary duties and leadership functions:

- Reviewing and adopting strategic plans, policies and direction for the Group;
- Overseeing the conduct of the Group's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate internal control and systems to manage these risks;
- Succession planning, including the appointment, the determination and review of compensation and, where appropriate, the replacement of senior management;
- Developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

### The Board Charter

It is clearly set out in the Board Charter, the roles and responsibilities and the details of the specific functions that are reserved for the Board. The Board Charter addresses, amongst others, the following matters:

- Duties and Responsibilities of the Board;
- Directors' Code of Ethics;
- Composition and Board Balance;
- The role of Chairman and Managing Director;
- Appointments;
- Re-election;
- Supply of information;
- Separation of Power;
- Board Committees;
- Remuneration;
- Financial Reporting;
- General meetings;
- Investor relations and shareholder communication; and
- Relationship with other stakeholders (employees, environment, corporate responsibility).

The Board Charter and Directors' Code of Ethics formalise the standard of ethical values and behaviour that is expected of its Directors at all times. The Board Charter was last adopted in year 2013. It will be reviewed from time to time to ensure its consistency with the Board's objectives and current laws and practices.

The Board's principal focus is the overall strategic direction, development and control of the Group. As such, the Board approves the Group's strategic plan and its annual budget and throughout the year, reviews the performance of the operating subsidiaries against their budgets and targets.

The Board has established a Whistle Blowing Policy, aimed to encourage employees or any parties to disclose any malpractice or misconduct of which they become aware of and to provide protection for the reporting of such alleged malpractice or misconduct. Any concerns raised will be investigated and reported to the Audit Committee, before the matter is escalated to the Board.

The Board is also guided by its documented and approved Limits of Authority (LOA) which differentiates between matters that are specifically reserved for the Board and those delegated to the Managing Director for day-to-day operations of the Group. With this formal structure of delegation laid in the LOA, the Managing Director and senior management team remain accountable to the Board for the authority that is delegated.

### Succession Planning

The Board is responsible for reviewing the candidates for the key executive positions in the Group, to ensure the candidates appointed to the position of Managing Director and members of senior management are qualified and are with calibre.

### Senior Independent Non-Executive Director

The Chairman of the Nomination Committee and Remuneration Committee is also the Senior Independent Non-Executive Director, to whom concerns from the other Directors, public or investors may be conveyed. Inquiries or complaints about decisions or actions taken by the Group should be addressed to the Senior Independent Non-Executive Director via email to suffian.haron@pharmaniaga.com.

### Company Secretary

The Company Secretary of the Group plays an important role in advising the Board on issues relating to corporate compliance with the relevant laws, rules, procedures and regulations affecting the Board and the Group, as well as best practices of governance.

The Directors have ready and unrestricted access to the advice and services of the Company Secretary, who has a legal background and is qualified to hold the position under section 139A of the Companies Act, 1965. The Board is regularly kept up to date on and apprised of any relevant regulations and guidelines, as well as any amendments issued by Bursa Malaysia, Securities Commission, Companies Commission of Malaysia and other relevant regulatory authorities.

The Company Secretary is responsible for advising the Directors of their obligations and duties to disclose their interest in securities, disclosure of any conflict of interest in a transaction involving the Group, prohibition on dealing in securities and restrictions on disclosure of price sensitive information.

The Company Secretary is also responsible for the operation of the secretariat function, including lodgements with relevant statutory and regulatory bodies, the administration of Board and Board Committee meetings.

### Boardroom Diversity and Target

The Group is headed by a woman Managing Director. Although the Board has not set a target for appointment of additional women directors, the Board embraces gender diversity, mindful that it should always be for the best interest of the Group.

## PRINCIPLE 2: STRENGTHEN COMPOSITION

The Board is aware and acknowledges that transparent policies and procedures are important that will assist the selection of board members. The Board is aware that its members should bring value to board deliberation. Through an annual board assessment review, the Board ensures that its board composition has the right mix of skill sets, competency and experience in carrying out its function effectively.

### Composition of the Board Committees

The Board has established the Audit, Nomination and Remuneration Committees to assist the Board in the execution of his duties in accordance with their respective Terms of Reference. To keep the Board up-to-date with the decisions and discussions made by each Board Committee, the Committees would report to the Board during the Board meetings and table the minutes of the Board Committees at the Board meetings.

### Audit Committee

The role of the Audit Committee and the number of meetings held during the financial year as well as the attendance record of each member are set out in the Audit Committee Report in this Annual Report, on page 81.

### Nomination Committee

The Nomination Committee comprises Non-Executive Directors, the majority of whom are independent. The Committee chaired by an Independent Director who is not chair of the Board. The information on the Committee's meeting and activities during the reporting period is as follows:

| Members | Meeting Attendance |
|---|---|
| Mohd Suffian Haji Haron (Chairman) | 2/2 |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 2/2 |
| Izzat Othman | 2/2 |

The salient Terms of Reference of the Nomination Committee are as follow:

- To annually examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.
- To assist the Board in the annual review of the required mix of skills, experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board and disclose the same in the Annual Report.
- To ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding three years at any one time with the power to re-appoint, remove or dismiss thereafter.
- To identify and recommend new nominees to the Board of Pharmaniaga Berhad and its subsidiaries and associated companies, whether to be filled by Board members, shareholders or executives. It is also to identify and recommend for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination and Remuneration or other Committees.

- To consider the following when recommending candidates for directorship:
  - Skills, knowledge, expertise and experience;
  - Professionalism;
  - Integrity; and
  - Ability to discharge functions/ responsibilities.

During the financial year, the key activity of the Nomination Committee was to review and recommend for approval of the Board, the appointment of members of senior management upon reviewing their qualification, knowledge and experience as well as the performance based awards upon assessing the individual's integrity and competency.

### Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors with the majority of members being Independent Directors. The Committee, which is chaired by an Independent Director, convened two meetings in 2015. The attendance record of which is as follows:

| Members | Meeting Attendance |
|---|---|
| Mohd Suffian Haji Haron (Chairman) | 2/2 |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 2/2 |
| Izzat Othman | 2/2 |

The salient Terms of Reference of the Remuneration Committee are as follow:

- To set, review, recommend and advise the policy framework on all elements of the remuneration such as reward structure, fringe benefits and other terms of employment of the Managing Director and senior management in the Group.
- To advise the Board of the performance of the Managing Director and an assessment of her entitlement to performance related pay. The Committee also should advise the Managing Director on the remuneration and terms and conditions of senior management.

During the financial year, the Remuneration Committee carried out the following key activities:

- Discussed and recommended to the Board on the bonus and salary increment for Managing Director, senior management and the salary increment rate for the Group, upon assessing the performance of the Group and employees; and
- Reviewed and recommended to the Board on the proposed increased of Directors' fees for shareholders' consideration.

### Directors' Remuneration

The Remuneration Committee recommends to the Board the framework and the remuneration package for the Managing Director and senior management. The determination of the remuneration of the Non-Executive Directors is a matter for the Board as a whole.

The Non-Executive Directors' remunerations comprise annual fees that reflect their expected roles and responsibilities. In addition, Non-Executive members of the Board and Board Committees are paid meeting allowance for each meeting they attended. The Directors' fees are approved annually by the shareholders of the Company at the Annual General Meeting.

Further details of Directors' remuneration are set out below and in Notes 7 and 8 to the Financial Statements on pages 128 and 130 respectively of this Annual Report.

### Remuneration Package

The remuneration package of the Directors is as follows:

a. **Basic Salary**
The basic salary (inclusive of statutory employer contributions to the Employees Provident Fund) for the Managing Director is recommended by the Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for a similar position in a selected group of comparable companies.

b. **Fees**
The Board, based on the fixed sum as authorised by the Company's shareholders, determines fees payable to Non-Executive Directors after considering comparable industry rates and the level of responsibilities undertaken by Non-Executive Directors.

**c. Bonus Scheme**

The Group operates a bonus scheme for all employees, including the Managing Director. The criteria for the scheme is dependent primarily on the level of profit achieved from the Group's business activities as measured against the targets and that of previous year, together with an assessment of each individual's performance during the year. Bonus payable to the Managing Director is reviewed by the Remuneration Committee and approved by the Board.

**d. Benefits-in-kind and other Perquisites**

The Managing Director is entitled to the provision of leave passage, car allowance, driver, medical (inclusive of immediate family members) and dental coverage. The Non-Executive Directors are entitled for the hand phone allowance, medical and dental coverage.

**e. Retirement Plan**

Contributions are made to the Employees Provident Fund, the national mandatory defined contribution in respect of the Managing Director.

**f. Service Contract**

The Managing Director is contracted to serve the Company for a period of 3 years with an option of renewal by the Company. As a Board member and in accordance with the Company Articles of Association, the Managing Director also retires from the Board at least once in 3 years but is eligible for re-election.

## Disclosure on Directors' Remuneration

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2015 are as follow:

| Directors | Basic Salaries, Bonus & EPF (RM) | Fees (RM) | Allowance, Perquisites & other emoluments (RM) | Benefits-in-kind (RM) | Total (RM) |
|---|---|---|---|---|---|
| Executive Director | 1,554,020 | 30,000 | 77,383 | 37,200 | 1,698,603 |
| Non-Executive Directors | – | 646,000 | 201,330 | – | 847,330 |
| Total | 1,554,020 | 676,000 | 278,713 | 37,200 | 2,545,933 |

The remuneration paid to Directors of the Company for the financial year ended 31 December 2015, in bands of RM50,000 is tabulated as follows:

| Remuneration Band | No. of Directors | |
|---|---|---|
| | Executive | Non-Executive |
| RM50,000 – RM100,000 | – | 2 |
| RM100,001 – RM150,000 | – | 2 |
| RM350,001 – RM400,000 | – | 1 |
| RM1,650,001 – RM1,700,000 | 1 | – |

*None of the Directors' remuneration falls within the RM150,001 – RM350,000 and RM400,001 – RM1,650,000 band.*

## PRINCIPLE 3: REINFORCE INDEPENDENCE

### Composition of the Board

The Board is led and controlled by an experienced Board, comprising members from diverse professional backgrounds, having expertise and experience, skills and knowledge in fields such as pharmaceutical industry, financial, corporate, legal and management. A brief description of profile of each Director is set out on pages 12 to 17 of this Annual Report. The Directors proposed for re-election and re-appointment are stated in the Notice and the Statement Accompanying Notice of Annual General Meeting.

The Board comprises six members, three of which are Independent Non-Executive Directors, two who are Non-Independent Non-Executives Directors and one Managing Director. The Board is led by Tan Sri Dato' Seri Lodin Wok Kamaruddin, a Non-Independent Non-Executive Chairman. This composition is in compliance with Paragraph 15.02 of the MMLR of Bursa Malaysia.

The Board is mindful of the recommendation of the MCCG 2012 on limiting the tenure of Independent Non-Executive Directors to nine years of service. Currently, the tenure of all Directors on the Board has not exceeded nine years.

### Board Independence

Pharmaniaga measures the independence of its Directors based on the criteria prescribed under the MMLR in which a Director should be independent and free from any business or other relationship that could interfere with the exercise of independent judgement or the ability to act in the best interests of the Company.

The MMLR states that Independent Non-Executive Directors should be independent and free from any business or other relationships that could interfere with the exercise of independent judgement or the ability to act in the best interests of the Company and is willing to express his opinion at the Board free of concern about his position or the position of any third party. None of the Independent Non-Executive Directors engage in the day-to-day management of the Company, participate in any business dealings or are involved in any other relationships with the Company (other than in situations permitted by the applicable regulations).

### Division of Roles and Responsibilities between the Chairman and the Managing Director

Pharmaniaga recognises the importance of separating the roles of the Chairman and the Managing Director. This is reflected in the division of their responsibilities which are clearly set out in the Board Charter. The distinct and separate roles of the Chairman and the Managing Director, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision making. The Chairman also avails himself to provide clarification on issues raised by shareholders and investors at the Company's general meetings.

The Chairman leads the Board with a keen focus on governance and compliance. In turn, the Board monitors the functions of the Board Committees in accordance with their respective Terms of Reference to ensure its own effectiveness, while the Managing Director with the assistance of the senior management, oversees the business and operations of the Company and implements the Board's decisions. By virtue of the Managing Director's position as a Board member, she also acts as the intermediary between the Board and senior management. The Managing Director is responsible for the implementation of the broad policies approved by the Board and is obliged to report and discuss at the Board meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory development.

### Directorship in other Public Listed Company

Paragraph 15.06 of MMLR provides that directors of listed company may not hold more than five directorships in listed companies. None of the Company Directors serve in more than five listed companies.

The Managing Director of the Company also does not serve as a director on other listed companies.

## PRINCIPLE 4: FOSTER COMMITMENT

### Board Appointment and Time Commitments

The Group has established formal and transparent procedures for the appointment of new Directors. The Nomination Committee scrutinises the sourcing and nomination of suitable candidates for appointment as Director in the Group. This Committee will ensure the selection of the Board members with the right skills set, expertise and industry knowledge, thus strengthening the composition of the Board and contributing significantly to the effectiveness of the Board.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointment of new Directors are properly executed. The Company ensures that an induction programme is in place for newly appointed Directors. The induction programme aims at communicating to the newly appointed Directors, the Company's vision and mission, its philosophy and nature of business, current issues within the Group, the corporate strategy and the expectations of the Group concerning input from Directors. The Chairman is primarily responsible for the induction programme with appropriate assistance from the Managing Director.

### Re-appointment and Re-election of Directors

Article 88 of the Company's Articles of Association of the Company state that at every Annual General Meeting (AGM) of the Company, one-third of the Directors for the time being, or if their number is not a multiple of three, than the number nearest to one-third shall retire from the office. The Article also provides that every Director including the Managing Director shall be subject to retirement at least once in every three years. A retiring Director shall be eligible for re-election and to hold office until the next AGM. Each of these Directors who are due for re-election or re-appointment at this year's AGM has been identified in the Notice of Annual General Meeting. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement Accompanying Notice of Annual General Meeting.

Any Director aged 70 or above is subject to re-appointment by shareholders on an annual basis pursuant to Section 129(6) of the Companies Act, 1965. The Board is satisfied that the Directors, who are required to stand for re-election and re-appointment respectively at the AGM, continue to demonstrate the necessary commitment to be fully effective members of the Board.

### Board Meetings

Board meetings were fixed in advanced for the whole year to ensure all Directors' and Committee members' dates are booked and also enable management to plan for the whole financial year. During the financial year ended 31 December 2015, there were four Board meetings held. The attendance at the Board meetings held during the year under review is as follows:

| Directors | Status of Directorship | Meeting Attendance |
|---|---|---|
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | Non-Independent Non-Executive Chairman | 4/4 |
| Dato' Farshila Emran | Managing Director | 4/4 |
| Daniel Ebinesan | Non-Independent Non-Executive Director | 4/4 |
| Mohd Suffian Haji Haron | Senior Independent Non-Executive Director | 4/4 |
| Izzat Othman | Independent Non-Executive Director | 4/4 |
| Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired) | Independent Non-Executive Director | 4/4 |

The above meetings were held either in Diamond Room, Ground Floor, No.7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan or at 28$^{th}$ Floor, Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur.

To assist the Board in retaining full and effective control of the Company, the Board deliberates on a formal agenda and matters arising thereof during these Board meetings.

The agenda for each Board meeting, together with detailed Board papers and supporting documents, are sufficiently circulated to all Board members in advance for their review prior to the meeting dates, to ensure that they are fully apprised on matters or key issues affecting the Group as well as to enable the Directors to make well informed decisions on matters arising at the Board meetings. Agenda items for which resolutions are sought are identified and clearly stipulated in the Board paper to ensure that matters are discussed in a structured manner. It has always been the Company's practice that a standardised format of Board paper is circulated for ease of reference during meetings. Any matters requiring urgent Board's decisions or approvals in the intervals between Board meetings will be sought via circular resolutions and supported with all relevant information and explanations from respective parties required for an informed decision to be made and the same for the Board Committees.

The Board decisions made at the Board meetings shall be by majority as prescribed by the Articles of Association of the Company.

During the financial year ended 31 December 2015, the Board reviewed and/or approved, amongst other matters, the following:

- The Group's Strategic Business Plans
- Quarterly Financial Reports and performance of the Group
- Directors' Report and the Audited Financial Statements
- Annual Report Disclosures for inclusion in the Annual Report
- Budgets, Bonus and Dividends

The Chairman of the Board chairs the Board meetings while the Managing Director leads the presentation and provides explanation on the Board papers and reports. The members of senior management may be invited to attend the Board meeting and brief the Board with detailed explanations or clarification on relevant agenda items that are tabled to the Board to enable the Board to arrive at a considered and informed decision.

The Board records decisions made as well as all issues discussed in arriving at the decisions in the minutes of meeting. Minutes of every Board meeting are circulated to the Chairman and the Managing Director for their perusal prior to confirmation of the minutes at the following Board meeting, in accordance with the provision of Section 156 of the Companies Act, 1965.

### Directors' Training

The Board believes that continuous training for Directors is essential for Board members to gain insight into the pharmaceutical industry, state of economy, technology advances, regulatory updates and management strategies to enhance the Board's skills and knowledge. To enable the Directors to discharge their duties effectively, the Directors are encouraged to attend seminars, training programmes and conferences in areas concerning Directors' duties and responsibilities, corporate governance and also to keep abreast with developments in the market.

During the year under review, the Directors have attended, amongst others, the following training programmes:

| Directors | Course Title | Date |
|---|---|---|
| **Tan Sri Dato' Seri Lodin Wok Kamaruddin** | Affin Hwang Capital Conference Series 2015: Navigating Through Turbulent Times | 10 February 2015 |
| | 2nd Distinguished Board Leadership Series: Board's Strategic Leadership Innovation & Growth In Uncertain Times by Ram Charan, organised by FIDE Forum | 21 May 2015 |
| | The World Capital Markets Symposium (WCMS) 2015 - Markets And Technology: Driving Future Growth through Innovation by Securities Commission | 3 September 2015 |
| | Capital Market Director's Training Program (CDMP) 2015 - Module 2A: Business Challenges and Regulatory Expectations: What Directors Need to Know (Equities & Future Broking) | 29 September 2015 |

| Directors | Course Title | Date |
|---|---|---|
| **Tan Sri Dato' Seri Lodin Wok Kamaruddin** *continued* | Capital Market Director's Training Program (CDMP) 2015 – Module 4: Current and Emerging Regulatory Issues in The Capital Market | 2 October 2015 |
| | Capital Market Director's Training Program (CDMP) 2015 - Module 1: Directors as Gatekeepers of Market Participants | 5 October 2015 |
| | Capital Market Director's Training Program (CDMP) 2015 – Module 2B: Business Challenges and Regulatory Expectations: What Directors Need to Know (Fund Management) | 7 October 2015 |
| | Capital Market Director's Training Program (CDMP) 2015 - Module 3: Risk & Compliance Oversight - Action Plan for Board of Directors | 20 October 2015 |
| | Half Day Talk organised by Affin Holdings Berhad:<br>– Economy and Financial Market Post Global Financial Crisis;<br>– Economic Outlook, Issues and Prospects; and<br>- Addressing Concerns on TPPA | 11 November 2015 |
| | Half Day Talk by PricewaterhouseCoopers (PwC) organised by Affin Holdings Berhad:<br>- Budget 2016 and GST Updates;<br>- Cybercrimes in the Financial Services Sector;<br>- Anti Money Laundering Act; and<br>– South East Asian Banking | 3 December 2015 |
| **Dato' Farshila Emran** | 20 Conversations @ Harvard, Boston, USA | 27 April to 1 May 2015 |
| **Daniel Ebinesan** | Corporate Governance Breakfast Series with Directors: Future of Auditor Reporting - The Game Changer for Boardroom by Bursa Malaysia | 21 September 2015 |
| | The Malaysian Economy: Prospects And Challenges | 11 November 2015 |
| | Trust Funded ESOS and Share Grant Plan Seminar: Financial Performance and Market Acceptance of ESOS | 17 November 2015 |
| **Mohd Suffian Hj Haron** | IFRS International Financial Reporting Standards: Financial Instruments IFRS 9 | June 2015 |
| | The Malaysian Economy: Prospects And Challenges | 11 November 2015 |
| | Half Day Talk by PricewaterhouseCoopers (PwC) organised by Affin Holdings Berhad:<br>- Budget 2016 and GST Updates;<br>- Cybercrimes in the Financial Services Sector;<br>- Anti Money Laundering Act; and<br>– South East Asian Banking | 3 December 2015 |
| **Izzat Othman** | Finance for Non-Financial Directors | 20 November 2015 |
| **Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)** | 4th Annual National Procurement & Integrity Forum for Public and Private Sectors 2015 | 21 January 2015 |
| | Corporate Directors Advanced Programme (CDAP) 2015: Ethics in Business - Creating Sustainable Value | 22 and 23 April 2015 |
| | 7th Annual Corporate Governance Summit | 8 and 9 June 2015 |
| | National Seminar on TPPA | 1 December 2015 |

### Supply of and Access to Information

In furtherance of their duties, every member of the Board has full, unrestricted and timely access to all information pertaining to the Company's business affairs, whether as a full Board or in their individual capacity, as the decision making process is highly contingent on the strength of information furnished.

The Company Secretary attends all Board meetings and is responsible for ensuring the Board procedures as well as statutory and regulatory requirements relating to the duties and responsibilities of the Directors are complied with. In addition, the Directors are also empowered to seek independent external professional opinion and advice at the expense of the Company, if necessary, to enable them to discharge their duties.

In performing their duties, all Directors have access to the advice and services of the Company Secretary and if necessary, may seek independent professional advice about the affairs of the Company. The Company Secretary also ensures that there is good information flow within the Board and between the Board, Board Committees and senior management. The Board is provided with Board papers in advance before each Board meeting and has a formal schedule of matters reserved to itself for decision, including the overall Company strategy and direction, acquisition and divestment policy, approval of major capital expenditure projects and significant financial matters.

## PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

### Financial Reporting

The Board is committed to provide and present a balanced, insightful and timely assessment of the Group's financial position and prospects by ensuring quality financial reporting to its stakeholders, in particular, shareholders, investors and the regulatory authorities. These stakeholders are kept abreast of the Group's financial position during the financial year, through the annual financial statements, quarterly financial results announcements and press releases.

Quarterly financial results and annual financial statements are reviewed and deliberated upon by the Audit Committee to ensure the quality of financial reporting and adequacy of such information, prior to submission to the Board for its approval. The Audit Committee also reviews the appropriateness of the Company's accounting policies and the changes to these policies.

The Directors are responsible for the preparation and fair presentation of the financial statements for each financial year in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965. The Statement of Directors' Responsibility in relation to the Financial Statements is presented in the appropriate section of this Annual Report.

### Internal Control

The Board acknowledges its responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets as required by the Code. The Group adheres to MMLR and Statement on Risk Management and Internal Control for Directors of Public Listed Companies, as guidance for compliance with these requirements.

Information on the Group's Internal Control is presented in the Statement on Risk Management and Internal Control pursuant to paragraph 15.26(b) of the MMLR of Bursa Malaysia is set out on page 74 of this Annual Report.

### Relationship with External Auditors

The Audit Committee maintains a transparent and professional relationship with the External Auditors, Messrs. PricewaterhouseCoopers. The Audit Committee has been conferred with the authority to directly liaise with both the External and Internal Auditors. The Board, through the Audit Committee, seeks the External Auditors' professional advice in ensuring compliance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

During the year under review, four Audit Committee meetings were held with two meetings held in the presence of External Auditors, Messrs. PricewaterhouseCoopers, without the presence of the Managing Director and senior management.

The External Auditors have confirmed to the Audit Committee that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the independence criteria set out by the Malaysian Institute of Accountants.

The Audit Committee will review the appointment and re-appointment of External Auditors as well as assess the performance of the External Auditors on annual basis. Assessment on the independence and objectivity of the External Auditors will be performed by the Audit Committee during the year and prior to the appointment of the External Auditors for adhoc non-audit services via submission of reports from the External Auditors on their own policies regarding independence and the measures taken to control the quality of their work.

## PRINCIPLE 6:
## RECOGNISE AND MANAGE RISKS

### Sound Framework to Manage Material Business Risks

The Company has established policies and framework for the oversight and management of material business risks and has adopted a formal Risk Management Policy. As required by the Board, the management has devised and implemented appropriate risk management framework which includes systems process on risk control and mitigation. The management is charged with monitoring the effectiveness of the risk management systems and is required to report to the Board. The Board receives periodic reports, summarising the results of risk management issues and initiatives within the Group.

### Internal Audit Function

The Group's Internal Audit function is currently handled by the Boustead Holdings Berhad's Group Internal Audit, where the Head of Internal Audit reports directly to the Audit Committee who reviews and approves the annual audit plan.

Further details of the activities of the Internal Audit function are set out in the Statement on Risk Management and Internal Control of this Annual Report.

## PRINCIPLE 7:
## ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### Corporate Disclosure

The Board reviews and approves all quarterly and other important announcements. The Company announces its quarterly and full year results within the mandatory period. The financial statements and press releases including material and price sensitive information are disseminated and publicly released via BURSALINK and FRESH by Securities Commission of Malaysia, on a timely basis to ensure effective dissemination of information relating to the Group.

### Effective Dissemination of Information

The Board is fully committed in maintaining a high standard in the dissemination of relevant and material information on the development of the Group.

The Company had always been providing as much information on a voluntary basis in addition to complying with the MMLR through media releases. The Board is mindful of the legal and regulations governing the release of materials and sensitive information so as not to mislead the shareholders. Therefore, information that is price sensitive or any undisclosed material information about the Group is not disclosed to any party until it is ready for simultaneous distributions.

The Company has been using the following formal channels to communicate with shareholders and stakeholders:

### (a) Annual Report

The Annual Report remains a major channel of communication disclosing information not only on the Group's business, financials and additional information such as the Company's mission and vision, operations performance and senior management team. The Board places great importance on the content of the Annual Report to ensure the accuracy of the information as the Annual Report is a vital source of information for investors, shareholders and the general public.

Management constantly improves the contents of Annual Report to incorporate developments, amongst others, corporate governance and Reports of Committees. The Managing Director oversees the production of the Annual Report and reviews its contents before it is published.

The Annual Reports are available online at http://pharma.irplc.com/investor-relations.html. Corporate related queries may be referred to the Company Secretary, Tasneem Mohd Dahalan (Tel: +603-2141 9044, e-mail: tasneem.gsec@boustead.com.my).

### (b) Announcements to Bursa Malaysia

The Board is entrusted to review and approve the announcements ensuring its full compliance with regulatory authorities' disclosure requirements.

All Bursa Malaysia announcements are also made available on Pharmaniaga's corporate website. Filings and announcements to Bursa Malaysia are available online at http://pharma.irplc.com/investor-relations.html. Announcements related queries may be referred to the Company Secretary, Tasneem Mohd Dahalan (Tel: +603-2141 9044, e-mail: tasneem.gsec@boustead.com.my).

**(c) Investor Relations**

Information that is disseminated to the investment community conforms to MMLR. While the Company endeavours to provide as much information as possible to its shareholders, it recognises the legal and regulatory framework governing the release of material and price sensitive information. Therefore, care has been taken to ensure that any information that may be regarded as undisclosed and market sensitive information such as corporate proposals, financial results and other material information about the Group will not be given to any shareholder or shareholder group without first making an official announcement to Bursa Malaysia for public release.

The contact person and details for Investor Relations (IR) related queries are as follow:

Name : Norai'ni Mohamed Ali
Position : Chief Financial Officer
Tel : +603 3342 9999 ext. 442
Email : noraini.aliani@pharmaniaga.com

**(d) Company Website**

The Company has established a comprehensive website at www.pharmaniaga.com which includes a dedicated section on IR to further enhance shareholder communication. The Company has also included a Corporate Governance section on its website where information such as the Board Charter and various good governance compliance statements are made available to the shareholders and public at http://pharma.irplc.com/investor-relations.html. This website also contains information about the Company products and businesses which have been made available to the public as well as other areas of interests to the public.

To better serve the Company's stakeholders, a feedback page on the website provides an avenue for stakeholders to suggest improvements to the Group via email: info@pharmaniaga.com. In addition, stakeholders who wish to reach the respective divisions or branches of the Group can do so through the 'Contact Us' page in the said website.

## PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

The Company believes in maintaining an open and constructive channel of communication with its shareholders and investors. It recognises and practices transparency and accountability to its shareholders and investors and pursue its ongoing commitment to sustain the highest standards of corporate governance practices throughout the Group with full appreciation of its impact on long term corporate performance and optimal shareholder value. Information about the Group is disseminated via company website, annual reports, shareholders' circulars, quarterly financial results and other announcements made to Bursa Malaysia from time to time. Copies of the Group's annual report and shareholders' circular are also made available to the interested institutional investors, fund managers and public upon request.

The Company values the feedback of its shareholders. The AGM is the principal avenue for shareholders to communicate and engage in dialogues with the Board and senior management of the Group. Constructive dialogues between the Board and the shareholders are encouraged whereby at the AGM, shareholders are given the opportunity to raise questions on issues pertaining to the Company's financial and operational performance.


The Chairman will provide sufficient time for shareholders' questions on matters pertaining to the Company's performance and would respond to the shareholders with regards to their concerns and questions raised.

At each AGM, a presentation is given by the Managing Director to explain the Group's strategy, performance and major developments to shareholders. At the AGM, the Directors also reveal to the shareholders, the Company's responses to questions posed by the Minority Shareholder Watchdog Group, submitted to the Company prior to the AGM.

At the AGM, the shareholders can exercise their voting rights and the meeting is convened in strict compliance with the laws and procedures of a general meeting. Separate resolutions are proposed for separate motions and the Chairman will declare the outcome of each resolution after proposal and secondment are done by the shareholders. Status of all resolutions proposed at the AGM is submitted to Bursa Malaysia at the end of the meeting day.

The Company views the timeliness, accuracy and reliability of information disseminated to the shareholders and stakeholders as crucial. The website www.pharmaniaga.com also allows shareholders and members of the public to access information pertaining to the Group.

## OTHER COMPLIANCE INFORMATION

### Related Party Transactions

The Group has in place a procedure to ensure the Company meets its obligations under the MMLR of Bursa Malaysia relating to related party transactions. All related party transactions are presented to the Audit Committee for review on a quarterly basis and later escalated to the Board for notation.

The details of the related party transactions are set out under Note 37 to the Financial Statements on pages 175 to 177 of this Annual Report.

### Non-Audit Fees

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Non-audit fees paid to the External Auditors for the financial year ended 31 December 2015 | 231 | 198 |

### Imposition of Sanctions and/or Penalties

The Company and its subsidiaries, Directors and management have not been imposed with any sanctions and/or penalties by the relevant regulatory bodies during the financial year ended 31 December 2015.

### Variation in Results

There was no material variance between the audited results for the financial year ended 31 December 2015 and the unaudited results previously announced.

### Profit Guarantees

During the financial year, there were no profit guarantees given by the Company.

### Material Contracts

During the financial year, there were no material contracts entered into by the Company and its subsidiaries involving Directors' and/or substantial shareholders' interests.

### Contracts Relating To Loans

There were no material contracts relating to loans entered into by the Company involving Directors and/or substantial shareholders.

### Insider Trading

During the financial year ended 31 December 2015, there was no insider trading reported.

## STATEMENT OF COMPLIANCE WITH THE REQUIREMENTS OF BURSA MALAYSIA IN RELATION TO APPLICATION OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012

**(Pursuant to paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia)**

The Board considers that it has complied with the Principles and Recommendations of the Code, except for the Recommendation 3.5 of the Code which stated that, where the Chairman of the Board is not an Independent Director, the Board must comprise a majority of Independent Directors. The Company's Chairman is not an Independent Director and there are three Independent Directors out of six Board members.

The Board believes that the interests of shareholders are best served by a Chairman who is sanctioned by the shareholders and who will act in the best interests of shareholders as a whole. As the Chairman is represented by shareholder who has substantial interest in the Company, he is well placed to act on behalf of shareholders and in their best interests. The Board will continuously evaluate suitable candidates for Independent Directors to form majority of the Board. However, the process should be executed with due care and careful assessment to ensure a meaningful contribution to the effectiveness of the Board as a whole.

**This Statement on Corporate Governance has been approved by the Board of Pharmaniaga on 15 February 2016.**

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## RESPONSIBILITY

### THE BOARD OF DIRECTORS

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

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

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

### THE MANAGEMENT

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

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

## KEY ELEMENTS OF RISK MANAGEMENT FRAMEWORK

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

The management, through the Risk Management Committee (RMC), is entrusted with the responsibility of implementing and maintaining the Group's Risk Management framework. The RMC 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 Divisions are entrusted to:

     - Evaluate the risk exposures which relate to their particular spheres of operations;
     - Coordinate the development of appropriate risk mitigation action plans;
     - Update the Business Continuity Plan for key business risks;
     - Monitor the results of key performance indicators; and
     - Ensure good corporate governance.

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

- **Risk Analysis and Measurement**

  In line with the Group's focus on expanding its business activities, the RMC 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 RMC 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 2015, the RMC met twice, on 13 August and 2 November 2015. At the meetings, the RMC 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 17 August and 25 November 2015. In addition, the reports were submitted to the Group Internal Auditors for an independent assessment on the adequacy and reliability of the risk management processes within the Group.

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

## KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

### Audit Committee

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

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

### Group Internal Audit

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

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

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

## CONTROL SYSTEMS AND PRACTICES

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

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

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

Notably, the following divisions or units strengthen the Group's internal control framework:

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

ii. **Regulatory Affairs**
   The Regulatory Affairs Division 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, ISO 14001, ISO/IEC 17025 and OHSAS 18001. In April 2015, the Information Technology department has been awarded with Information Security Management System (ISMS) ISO/IEC 27001. The ISO/IEC 27001 ensures that the security arrangements within the Group are fine tuned to keep pace with changes to the security threats, vulnerabilities and business impacts, which is an important aspect in a dynamic environment faced by the business.

  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 Control Bureau, and certain multinational companies' evaluation committees.

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

- **Code of Conduct**

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

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

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

  Based on strategies identified, the Annual Operating and Three-Year Business Plan together with Key Performance Indicators (KPIs) were drawn up and approved by the Board in November 2015. 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.

- **Human Resources Policies and Procedures**

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

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

Training and development programmes are identified and established to ensure that staff 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.

In accordance with the Personal Data Protection Act 2010 which became enforceable on 15 November 2013 to regulate the processing of personal data in commercial transactions, the Company is committed to ensuring complete compliance with the Act.

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

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

- **Tender Award System**

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

- **Insurance**

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

- **Credit Management**

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

## MONITORING

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

- **Regular Monthly Reporting**

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

- **Performance Management**

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

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

FCIO provides a framework to translate and align the Group's strategy into measurable operational terms and is being used as a business unit and corporate performance measurement tool. In 2015, the Group incorporated the 360-degree appraisal into the existing PMS, which aims to further enhance the evaluation of individual as well as team performance. This system has been implemented for all executives and managerial levels.

- **Internal Audit Function**

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

## COMMUNICATION

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

- **Assembly and Session with the Management**

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

- **Whistleblowing**

  The Whistle Blower Policy provides a platform and acts as a mechanism for parties to channel their complaints or to provide information on fraud, wrong doings 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 whistle blower the opportunity to raise a concern outside their management line and in confidence. The identity of the whistle blower is kept confidential and protection is accorded to the whistle blower against any form of reprisal or retribution. Any concerns raised will be investigated and reported to the Board.

- **Do It Right Campaign**

  In November 2014, a compliance awareness programme, the "Do It Right Campaign" (DIRC) has been launched to inculcate in Pharmaniaga's employees, the culture of compliance with the Good Manufacturing Practice (GMP), Good Distribution Practice (GDP), Good Distribution Practice for Medical Devices (GDPMD), International Organisation for Standardisation (ISO) and other relevant laws and regulations. DIRC conveyed three main themes:

  - Compliance is Everyone's Responsibility;
  - Effective Communication; and
  - Do What You Document, Document What You Do.

  Throughout 2015, various activities have been organised for the employees at all branches in Malaysia in order to build and maintain the culture of compliance. The activities include:

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

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

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

  iv. Environmental Conservation campaign.

## ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

The monitoring, review and reporting arrangements in place provide reasonable assurance that the structure of controls and their implementation are appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's businesses. Such arrangements, however, do not eliminate the possibility of human error or deliberate circumvention of control procedures by employees and others. The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders' investment, the interest of customers, regulators, employees and the Group's assets.

## ASSURANCE FROM MANAGEMENT

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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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

This statement is made in accordance with the resolution of the Board of Directors dated 15 February 2016.

# AUDIT COMMITTEE REPORT

The Board of Directors of Pharmaniaga Berhad is pleased to present the report of the Audit Committee for the financial year 2015.

## MEETINGS

During the financial year 2015, the Audit Committee has convened four meetings, whereby the attendance at all meetings met the requisite quorum in which the majority of the members present were Independent Non-Executive Directors, as stipulated in the Terms of Reference. The Company Secretary is responsible for ensuring meetings are arranged and held accordingly at least four times annually and duly minuted. The meetings were appropriately structured through the use of agendas, which were distributed to members with sufficient notification. The details of attendance of each member at the Audit Committee meetings held during the financial year are set out below:

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

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

## TERMS OF REFERENCE

In performing its duties and discharging its responsibilities, the Audit Committee is guided by its Terms of Reference. The Terms of Reference of the Audit Committee are contained in the Audit Committee Charter approved by the Board.

### Membership

The Audit Committee shall comprise at least three Non-Executive Directors, the majority of whom are independent, including the Chairman. All members of the Audit Committee shall be financially literate and at least one member shall be a professional or qualified accountant. Any vacancy resulting in there being no majority of independent directors shall be filled within three months.

### Authority

In carrying out its duties and responsibilities, the Audit Committee will have the following rights:

i. Have explicit authority to investigate any matter within its Terms of Reference, the resources to do so and full access to information. The Audit Committee should be able to obtain external professional advice and to invite outsiders with relevant experience and expertise to attend its meetings, if necessary and to brief the Committee thereof;

ii. Have the resources which are required to perform its duties;

iii. Have full, free and unrestricted access to any information, records, properties and personnel of Pharmaniaga and of any other companies within the Group;

iv. Have direct communication channels with the External Auditors and person(s) carrying out the Internal Audit function or activity;

v. Be able to convene meetings with External Auditors, excluding the attendance of the executive members of the Board and management, whenever deemed necessary; and

vi. Where the Audit Committee is of the view that a matter reported by it to the Board of Directors of Pharmaniaga has not been satisfactorily resolved resulting in a breach of Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia), the Audit Committee must promptly report such matter to Bursa Malaysia.

### Key Functions and Responsibilities

The key functions and responsibilities of the Audit Committee are as follow:

i. To review with the External Auditors, the audit plan, the nature and scope of audit, procedures employed, annual audit process and their audit report;

ii. To oversee Pharmaniaga's internal control structure to ensure operational effectiveness and efficiency, reduce risk of inaccurate financial reporting, protect the Company's assets from misappropriation as well as encourage legal and regulatory compliance;

iii. To review the evaluation of the system of internal control with the Internal and External Auditors;

iv. To ensure the internal audit function is independent of the activities they perform and review the adequacy of the scope, strategic and annual internal audit work plans, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;

v. To review the overall performance of the internal audit function, internal audit plan and review the results of internal audit plan or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;

vi. To review the quarterly interim results, half-year and annual financial statements of the Group prior to approval by the Board of Directors, focusing particularly on changes in or implementation of major accounting policies; significant adjustment and unusual events arising from the audit; the going concern assumptions and compliance with accounting standards and other legal and listing requirements;

vii. To review related party transactions entered into by the Company and the Group to ensure that they are in the best interest of the Group; fair, reasonable and on normal commercial terms and not detrimental to minority shareholders;

viii. To review the procedures of recurrent related party transactions undertaken by the Company and the Group;

ix. To review with the External Auditors with regards to the problems and reservations arising from their interim and final audits;

x. To review the overall risk profile of the Pharmaniaga Group of Companies;

xi. To consider the appointment and re-appointment of External Auditors, recommend the audit fee payable, assess the performance of the External Auditors and review any question of resignation and dismissal of External Auditors and make recommendations to the Board of Directors on their appointment and removal;

xii. To recommend the nomination of a person or persons as External Auditors;

xiii. To monitor the Group's compliance to the MMLR and the Malaysian Code of Corporate Governance (Revised 2012) from assurances by the Company Secretary and the results of review by the External and Internal Auditors;

xiv. To report to Bursa Malaysia, any breaches of the MMLR which have not been satisfactorily resolved; and

xv. To undertake such other functions as may be agreed to by the Committee and the Board of Directors.

## ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year 2015, the Audit Committee carried out its duties in accordance with its Terms of Reference as follow:

### Financial Reporting

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

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

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

- provisions of the Companies Act, 1965;
- MMLR of Bursa Malaysia;
- applicable approved accounting standards in Malaysia; and
- other relevant legal and regulatory requirements.

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

### Internal Audit

- Reviewed the Group Internal Audit's (GIA) annual audit plan for 2015 to ensure the adequacy of scope and comprehensiveness of the activities and coverage on auditable entities with significant high risks.

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

- Reviewed the internal audit reports issued by GIA and thereafter discussed the management's actions taken to improve the system of internal control and any outstanding matters.

- 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; and
  - the results of the annual audit, their audit report for the financial year ended 31 December 2015 and management letter together with the management's response to the findings of the External Auditors.

- Assessed the independence and objectivity of the External Auditors during the year and prior to the appointment of the External Auditors for adhoc non-audit services. This includes monitoring the fees of total non-audit work by the External Auditors. In 2015, the Group engaged the External Auditors for non-audit projects mainly on the implementation and post-implementation review of Goods and Services Tax (GST). The non-audit fees are disclosed in the Statement on Corporate Governance in this Annual Report.

- 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 senior management.

**Related Party Transactions**

- Reviewed the quarterly updates on the related party transactions entered into by Pharmaniaga Group and/or its group of companies, 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 Statement on Corporate Governance, Statement on Risk Management and Internal Control, Audit Committee Report for the financial year ended 31 December 2015 and Circular to Shareholders on Recurrent Related Party Transactions to the Board for approval for disclosures in the Annual Report.

**Risk Management**

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

During the year, two risk management meetings were held on 17 August and 25 November 2015 by the Risk Management Committee with the Audit Committee. In the meeting, action plans on significant risks and the updated Risk Register were presented.

## INTERNAL AUDIT FUNCTION

The internal audit function of Pharmaniaga Group is carried out by GIA of Boustead Holdings Berhad. GIA provides independent, objective assurance on the areas of operations reviewed, and advised on the best practices that will add value to the Pharmaniaga Group. GIA adopts a risk-based methodology in planning and conducting audits by focusing on key risks areas. GIA function had operated and performed in accordance to the principles of the Internal Audit Charter that provides for its independence function. GIA function reports directly to the Audit Committee, and is independent of the activities it audits.

During the year, GIA carried out audits based on the plan approved by the Audit Committee. The internal audit reports on risk management, control and governance issues were provided to the management for their prompt corrective and preventive action for improvements in the related processes. The findings of the internal audits and implementation status of corrective and preventive actions were communicated to the Audit Committee on a quarterly basis to enable an evaluation of the adequacy and integrity of the Group's risk management, control and governance systems.

The Company has an adequately resourced internal audit function to assist the Audit Committee and the Board in maintaining an effective system of internal control and overall governance practices within the Company and the Group.

During the financial year, GIA had undertaken the following activities:

- 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.

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

- Reviewed the procedures relating to related party transactions.

The total cost incurred for GIA in respect of the financial year ended 31 December 2015 amounted to RM252,620.

# 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, 1965 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 2015 and of the results and the cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

- Applied the appropriate and relevant accounting policies on a consistent basis;
- Made judgements and estimates that are prudent and reasonable; and
- Prepared the financial statements on the going concern basis.

The Directors are responsible to ensure that the Company keeps 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, 1965.

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

# FINANCIAL STATEMENTS

20.58
54.89
41.63
27.23
36.21
65.81
78.20
+354.88
687.91
509.39

# DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2015.

## 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 | 84,584 | 52,042 |
| Attributable to: | | |
| Owners of the parent | 84,044 | 52,042 |
| Non-controlling interests | 540 | – |
| | 84,584 | 52,042 |

## 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 2015:

| | Dividend Sen per share | Dividend RM'000 | Payment Date |
|---|---|---|---|
| First interim single tier dividend | 7.00 | 18,122 | 25 June 2015 |
| Second interim single tier dividend | 7.00 | 18,122 | 15 September 2015 |
| Third interim single tier dividend | 9.00 | 23,299 | 21 December 2015 |
| Fourth interim single tier dividend | 7.00 | 18,122 | 25 March 2016 |
| | 30.00 | 77,665 | |

The fourth interim single tier dividend of 7.00 sen per share amounting to RM18,121,791 mentioned above in respect of the financial year ended 31 December 2015 will be paid on 25 March 2016 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2016.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2015.

## 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

There were no shares or debentures issued during the financial year.

## SIGNIFICANT AND SUBSEQUENT EVENTS

Significant and subsequent events during the financial year are disclosed in Note 38 to the financial statements.

## DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

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

## 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 Director 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 except as disclosed in Note 37(e) to the financial statements.

## REMUNERATION COMMITTEE

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

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

## DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares in the Company and its related corporations were as follows:

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Acquired | Sold | At 31.12.2015 |
| **The Company** | | | | |
| **Direct interest** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 12,500,148 | – | – | 12,500,148 |
| Dato' Farshila Emran | 207,000 | – | (120,000) | 87,000 |
| Daniel Ebinesan | 400,000 | – | – | 400,000 |
| Izzat Othman | 99,000 | – | (99,000) | – |

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Acquired | Sold | At 31.12.2015 |
| **Immediate holding company** | | | | |
| **Boustead Holdings Berhad** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 28,192,758 | – | – | 28,192,758 |
| Daniel Ebinesan | 157,740 | – | – | 157,740 |

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

| | Number of ordinary shares of RM1.00 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Acquired | Sold | At 31.12.2015 |
| **Related corporations** | | | | |
| **Boustead Heavy Industries Corporation Berhad** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 2,000,000 | – | – | 2,000,000 |
| Daniel Ebinesan | 20 | – | – | 20 |
| Mohd Suffian Haji Haron | 20,000 | – | – | 20,000 |
| **Boustead Petroleum Sdn. Bhd.** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 5,916,465 | – | – | 5,916,465 |
| **Boustead Plantations Berhad** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 31,381,600 | – | – | 31,381,600 |
| Dato' Farshila Emran | 450,000 | – | – | 450,000 |
| Daniel Ebinesan | 1,295,500 | – | – | 1,295,500 |
| Mohd Suffian Haji Haron | 30,000 | – | – | 30,000 |
| Izzat Othman | 250,000 | – | – | 250,000 |
| **Affin Holdings Berhad** | | | | |
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | 1,051,328 | – | – | 1,051,328 |
| Daniel Ebinesan | 43,300 | – | – | 43,300 |

Other than as disclosed above, according to the Register of Directors' Shareholdings, the other Director in office at the end of the financial year does not hold any interest in shares in the Company and its related corporations during the financial year.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

### CURRENT ASSETS VALUATION

Before the income statements and statements of financial position of the Group and of the Company were made out, 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 their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they 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.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

### 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.

## AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 25 February 2016.

**TAN SRI DATO' SERI LODIN WOK KAMARUDDIN**
**CHAIRMAN**

**DATO' FARSHILA EMRAN**
**MANAGING DIRECTOR**

# STATEMENT BY DIRECTORS

### PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Tan Sri Dato' Seri Lodin Wok Kamaruddin and Dato' Farshila Emran, being two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 97 to 186 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2015 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out in Note 41 on page 187 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution dated 25 February 2016.

**TAN SRI DATO' SERI LODIN WOK KAMARUDDIN**
**CHAIRMAN**

**DATO' FARSHILA EMRAN**
**MANAGING DIRECTOR**

# STATUTORY DECLARATION

### PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

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 97 to 186 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**NORAI'NI MOHAMED ALI**

Subscribed and solemnly declared by the abovenamed Norai'ni Mohamed Ali at Kuala Lumpur on 25 February 2016, before me.

**COMMISSIONER FOR OATHS**

# INDEPENDENT AUDITORS' REPORT

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

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Pharmaniaga Berhad on pages 97 to 186, which comprise the statements of financial position as at 31 December 2015 of the Group and of the Company, and 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 year then ended, and a summary of significant accounting policies and other explanatory information, as set out on Notes 1 to 40.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 14 to the financial statements.

(c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 41 on page 187 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS**
(No. AF: 1146)
Chartered Accountants

**AZIZAN BIN ZAKARIA**
(No. 2930/05/16 (J))
Chartered Accountant

**Kuala Lumpur**
**25 February 2016**

# INCOME STATEMENTS

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Revenue | 4 | **2,189,312** | 2,122,933 | **71,781** | 91,083 |
| Cost of sales | 5 | **(1,836,459)** | (1,773,473) | **-** | - |
| Gross profit | | **352,853** | 349,460 | **71,781** | 91,083 |
| Other income | 7(b) | **363** | 808 | **38** | 44 |
| Administrative expenses | | **(226,398)** | (209,211) | **(16,709)** | (9,451) |
| Finance costs | 6 | **(15,146)** | (16,768) | **(3,468)** | (4,148) |
| Interest income | | **1,050** | 1,291 | **400** | 1,621 |
| Profit before zakat and taxation | 7 | **112,722** | 125,580 | **52,042** | 79,149 |
| Zakat | | **(700)** | - | **-** | - |
| Taxation | 9 | **(27,438)** | (31,355) | **-** | - |
| Net profit for the financial year | | **84,584** | 94,225 | **52,042** | 79,149 |
| Attributable to: | | | | | |
| Owners of the parent | | **84,044** | 93,844 | **52,042** | 79,149 |
| Non-controlling interests | | **540** | 381 | **-** | - |
| Net profit for the financial year | | **84,584** | 94,225 | **52,042** | 79,149 |
| Earnings per share (sen): | | | | | |
| - basic and diluted | 10 | **32.46** | 36.25 | | |

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

# STATEMENTS OF COMPREHENSIVE INCOME

### FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Net profit for the financial year | | **84,584** | 94,225 | **52,042** | 79,149 |
| Other comprehensive income, net of tax: | | | | | |
| **Items that may be subsequently reclassified to profit or loss** | | | | | |
| Foreign currency translation differences for foreign operations | | **14,185** | 3,230 | **-** | - |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Recognition of actuarial (loss)/gain | 31 | **(201)** | 201 | **-** | - |
| Other comprehensive income, net of tax for the financial year | | **13,984** | 3,431 | **-** | - |
| Total comprehensive income, net of tax for the financial year | | **98,568** | 97,656 | **52,042** | 79,149 |
| Attributable to: | | | | | |
| Owners of the parent | | **93,506** | 96,352 | **52,042** | 79,149 |
| Non-controlling interests | | **5,062** | 1,304 | **-** | - |
| | | **98,568** | 97,656 | **52,042** | 79,149 |

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

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | **406,184** | 369,800 | **-** | - |
| Prepaid lease payments | 13 | **2,628** | 2,547 | **-** | - |
| Subsidiaries | 14 | **-** | - | **432,837** | 436,610 |
| Investment in an associate | 15 | **-** | - | **-** | - |
| Intangible assets | 16 | **284,108** | 232,982 | **-** | - |
| Trade receivables | 18 | **9,587** | 10,605 | **-** | - |
| Other receivables | 19 | **-** | 1,450 | **-** | 1,450 |
| Amount due from a subsidiary | 20 | **-** | - | **107,238** | 80,542 |
| Deferred tax assets | 30 | **24,261** | 21,070 | **-** | - |
| | | **726,768** | 638,454 | **540,075** | 518,602 |
| **Current assets** | | | | | |
| Inventories | 17 | **539,896** | 427,035 | **-** | - |
| Trade receivables | 18 | **147,661** | 117,002 | **-** | - |
| Other receivables | 19 | **47,594** | 25,914 | **337** | 271 |
| Amounts due from subsidiaries | 20 | **-** | - | **64,156** | 98,575 |
| Deposits, cash and bank balances | 22 | **22,518** | 31,982 | **189** | 562 |
| Tax recoverable | | **11,186** | 2,333 | **-** | - |
| | | **768,855** | 604,266 | **64,682** | 99,408 |
| **TOTAL ASSETS** | | **1,495,623** | 1,242,720 | **604,757** | 618,010 |

# STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

## EQUITY AND LIABILITIES

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Capital and reserves attributable to equity holders of the Company** | | | | | |
| Share capital | 28 | **129,441** | 129,441 | **129,441** | 129,441 |
| Share premium | | **11,751** | 11,751 | **11,751** | 11,751 |
| Exchange reserve | | **7,842** | (1,730) | **-** | - |
| Retained earnings | 29 | **380,375** | 387,050 | **164,672** | 203,239 |
| | | **529,409** | 526,512 | **305,864** | 344,431 |
| Non-controlling interests | | **30,585** | 25,523 | **-** | - |
| Total equity | | **559,994** | 552,035 | **305,864** | 344,431 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 27 | **558** | 1,060 | **-** | - |
| Deferred tax liabilities | 30 | **33,419** | 28,290 | **-** | - |
| Provision for defined benefit plan | 31 | **7,501** | 6,213 | **-** | - |
| | | **41,478** | 35,563 | **-** | - |
| **Current liabilities** | | | | | |
| Amounts due to subsidiaries | 20 | **-** | - | **215,020** | 205,679 |
| Amounts due to related companies | 21 | **1,396** | 1,192 | **-** | - |
| Trade payables | 23 | **435,915** | 396,459 | **-** | - |
| Other payables | 24 | **51,193** | 50,903 | **3,865** | 2,856 |
| Amount due to immediate holding company | 25 | **186** | 227 | **8** | 44 |
| Deferred income | 26 | **196** | 152 | **-** | - |
| Loans and borrowings | 27 | **399,613** | 200,080 | **80,000** | 65,000 |
| Current tax liabilities | | **5,652** | 6,109 | **-** | - |
| | | **894,151** | 655,122 | **298,893** | 273,579 |
| Total liabilities | | **935,629** | 690,685 | **298,893** | 273,579 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,495,623** | 1,242,720 | **604,757** | 618,010 |

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

# STATEMENTS OF CHANGES IN EQUITY

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

| | | Equity attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RM'000 | Share premium RM'000 | Exchange reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **Group** | | | | | | | | |
| At 1 January 2015 | | **129,441** | **11,751** | **(1,730)** | **387,050** | **526,512** | **25,523** | **552,035** |
| **Comprehensive income:** | | | | | | | | |
| - Net profit for the financial year | | - | - | - | 84,044 | 84,044 | 540 | 84,584 |
| - Other comprehensive income | | - | - | 9,572 | (110) | 9,462 | 4,522 | 13,984 |
| Total comprehensive income for the financial year | | - | - | 9,572 | 83,934 | 93,506 | 5,062 | 98,568 |
| **Transactions with owners:** | | | | | | | | |
| Dividends | 11 | - | - | - | (90,609) | (90,609) | - | (90,609) |
| Total transactions with owners for the financial year | | - | - | - | (90,609) | (90,609) | - | (90,609) |
| At 31 December 2015 | | **129,441** | **11,751** | **7,842** | **380,375** | **529,409** | **30,585** | **559,994** |

# STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | | Equity attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RM'000 | Share premium RM'000 | Exchange reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| **Group** | | | | | | | | |
| At 1 January 2014 | | 129,441 | 11,751 | (4,131) | 350,571 | 487,632 | 15,631 | 503,263 |
| **Comprehensive income:** | | | | | | | | |
| - Net profit for the financial year | | – | – | – | 93,844 | 93,844 | 381 | 94,225 |
| - Other comprehensive income | | – | – | 2,401 | 107 | 2,508 | 923 | 3,431 |
| Total comprehensive income for the financial year | | – | – | 2,401 | 93,951 | 96,352 | 1,304 | 97,656 |
| **Transactions with owners:** | | | | | | | | |
| Non-controlling interest arising on the acquisition of a subsidiary | 14 | – | – | – | – | – | 8,402 | 8,402 |
| Increase in shares by a subsidiary | | – | – | – | – | – | 186 | 186 |
| Dividends | 11 | – | – | – | (57,472) | (57,472) | – | (57,472) |
| Total transactions with owners for the financial year | | – | – | – | (57,472) | (57,472) | 8,588 | (48,884) |
| At 31 December 2014 | | 129,441 | 11,751 | (1,730) | 387,050 | 526,512 | 25,523 | 552,035 |

| | Note | Non-distributable Share capital RM'000 | Share premium RM'000 | Distributable Retained earnings RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| At 1 January 2015 | | **129,441** | **11,751** | **203,239** | **344,431** |
| Total comprehensive income for the financial year | | **-** | **-** | **52,042** | **52,042** |
| **Transactions with owners:** | | | | | |
| Dividends | 11 | **-** | **-** | **(90,609)** | **(90,609)** |
| Total transactions with owners for the financial year | | **-** | **-** | **(90,609)** | **(90,609)** |
| At 31 December 2015 | | **129,441** | **11,751** | **164,672** | **305,864** |
| | | | | | |
| At 1 January 2014 | | 129,441 | 11,751 | 181,562 | 322,754 |
| Total comprehensive income for the financial year | | - | - | 79,149 | 79,149 |
| **Transactions with owners:** | | | | | |
| Dividends | 11 | - | - | (57,472) | (57,472) |
| Total transactions with owners for the financial year | | - | - | (57,472) | (57,472) |
| At 31 December 2014 | | 129,441 | 11,751 | 203,239 | 344,431 |

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

# STATEMENTS OF CASH FLOWS

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash receipts from customers | | **2,170,373** | 2,150,779 | **-** | - |
| Cash payments to suppliers and employees | | **(2,112,478)** | (1,900,696) | **(17,111)** | (13,467) |
| Cash generated from/(used in) operations | | **57,895** | 250,083 | **(17,111)** | (13,467) |
| Interest paid | | **(15,527)** | (16,573) | **-** | - |
| Tax paid | | **(35,272)** | (21,338) | **-** | - |
| Zakat paid | | **(700)** | - | **-** | - |
| Interest received | | **923** | 1,307 | **-** | - |
| Net cash generated from/(used in) operating activities | | **7,319** | 213,479 | **(17,111)** | (13,467) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Acquisition of a subsidiary (net of cash acquired) | 14 | **-** | (69,264) | **-** | - |
| Acquisition of a business | 16 | **(1,400)** | - | **-** | - |
| Issuance of shares by a subsidiary | | **-** | 186 | **-** | - |
| Proceeds from disposal of property, plant and equipment | | **240** | 619 | **-** | - |
| Purchase of property, plant and equipment | 12 | **(61,298)** | (31,434) | **-** | - |
| Purchase of intangible assets | 16 | **(56,387)** | (54,649) | **-** | - |
| Gross advances to subsidiaries | | **-** | - | **(33,116)** | (98,116) |
| Gross repayments from subsidiaries | | **-** | - | **41** | 1,606 |
| Net cash used in investing activities | | **(118,845)** | (154,542) | **(33,075)** | (96,510) |

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Dividends paid | | **(90,609)** | (57,472) | **(90,609)** | (57,472) |
| Drawdown of short term borrowings | | **826,819** | 508,154 | **30,000** | 65,000 |
| Interest paid | | **-** | - | **(3,468)** | (4,148) |
| Repayment of short term borrowings | | **(635,364)** | (510,787) | **(15,000)** | (55,000) |
| Gross advances received from subsidiaries | | **-** | - | **221,320** | 170,860 |
| Gross repayments to subsidiaries | | **-** | - | **(92,430)** | (9,893) |
| Net cash generated from/(used in) financing activities | | **100,846** | (60,105) | **49,813** | 109,347 |
| **NET CHANGES IN CASH AND CASH EQUIVALENTS** | | **(10,680)** | (1,168) | **(373)** | (630) |
| Foreign exchange differences | | **1,216** | 250 | **-** | - |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR** | | **31,982** | 32,900 | **562** | 1,192 |
| **CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR** | 22 | **22,518** | 31,982 | **189** | 562 |

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 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 SUMMARY OF 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, 1965 in Malaysia.

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

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

**Standards and amendments to published standards and interpretations that are effective**

The improvements and amendments to published standards that are effective for the Group and the Company's financial year beginning on or after 1 January 2015 are as follows:

| | |
|---|---|
| • Annual Improvements to MFRSs 2010 – 2012 Cycle | Amendments to MFRS 3 'Business Combinations', MFRS 8 'Operating Segments', MFRS 13 'Fair Value', MFRS 116 'Property, Plant and Equipment', MFRS 138 'Intangible Assets' and MFRS 124 'Related Party Disclosure' |
| • Annual Improvements to MFRSs 2011 – 2013 Cycle | Amendments to MFRS 3 'Business Combinations' and MFRS 13 'Fair Value Measurement' |

The adoption of the Annual Improvements to MFRS 2010 – 2012 Cycle has required additional disclosures about the aggregation of segments. Other than that, the adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

**Standards and amendments to published standards that are applicable to the Group but not yet effective**

The Group will apply the new standards and amendments to published standards in the following period:

(i) Financial year beginning on/after 1 January 2016

- Amendments to MFRS 116 'Property, Plant and Equipment' and MFRS 138 'Intangible Assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation and amortisation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

  The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- Annual Improvements to MFRSs 2012 – 2014 Cycle: Amendments to MFRS 7 'Financial Instruments', MFRS 119 'Employee Benefits' and MFRS 134 'Interim Financial Reporting'

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

- MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

  Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

**Standards and amendments to published standards that are applicable to the Group but not yet effective (continued)**

The Group will apply the new standards and amendments to published standards in the following period: (continued)

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

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

The Group and the Company are assessing the impact of the above standards and 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

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.

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.

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.

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

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(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.

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(iv) Associates (continued)

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.

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies (continued)

(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 statement of comprehensive income or separate income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

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

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

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

(e) Property, plant and equipment

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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

Subsequent costs are included in the assets' carrying amount 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 50 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% – 10% |
| Furniture and fittings | 10% – 25% |
| Renovation | 5% – 25% |
| Equipment | 5% – 25% |

Depreciation on assets under construction commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date. The effects of any revision of the residual values and useful lives are included in profit or loss for the financial year in which the changes arise. During the financial year, the Group revised the useful life of certain plant, machinery and equipment from 10 years to 15 or 20 years. The revision was accounted for as a change in accounting estimate and as a result, the depreciation charge for current financial year was reduced by RM4,740,219.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (continued)

(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 8 years.

(iii) Rights to supply

(i) Concession Agreement

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 10 years. The title of the said hardware and software vests with the Government of Malaysia.

(ii) Supply Agreement

Expenses incurred to acquire the rights under the Novation Agreement to supply pharmaceutical products are capitalised and carried at cost less accumulated amortisation and any accumulated impairment losses. The rights were amortised over the period of supply agreement of 22 months from 1 April 2012 to 31 January 2014.

Where an indication of impairment exists, the carrying amount of the rights to supply is assessed and written down immediately to its recoverable amount. See accounting policy Note 2(j) on impairment of non-financial assets.

(iv) Pharmacy manufacturing licence

Pharmacy manufacturing licence acquired in a business combination is recognised at fair value at the acquisition date. The pharmacy manufacturing licence represents the rights to manufacture pharmaceutical products in Indonesia and has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of pharmacy manufacturing licence over a period of 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. Amortisation is calculated using the straight-line method to allocate the cost of trade name over a period of 15 years.

## 2 SUMMARY OF 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trade and other receivables

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

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

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

After recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. See accounting policy Note 2(j) on impairment of non-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 are shown in equity as a deduction from the proceeds.

(iii) Dividends

Interim dividends on ordinary shares are recognised as liabilities when declared. Proposed final dividends are accrued as liabilities only after approval by shareholders.

(iv) Earnings per share

Earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity rather than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

(p) Trade payables

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

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

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

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

(q) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group. 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(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.

(r) Provisions

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition

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

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

(i) Sale of goods and services

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

(ii) Contracts

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

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

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

(iii) Interest income

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

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income taxes

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

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

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

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

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

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

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial assets

**Classification**

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

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'deposits, cash and bank balances' in the consolidated statement of financial position.

**Recognition and measurement**

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

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

**De-recognition**

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

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(w) Impairment of financial assets

**Assets carried at amortised cost**

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (continued)

**Assets carried at amortised cost (continued)**

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

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

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

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

(x) Deferred income

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

(y) 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 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) 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

**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.

**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.

(aa) 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 2015 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.

Impairment of property, plant and equipment and capitalised development costs

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

Projected future cash flows are based on the Group's estimates calculated based on the cash-generating unit's operating results, approved business plans, sector and industry trends as well as future economic conditions, changes in technology and other available information. The assumptions used, results and conclusion of the impairment assessment are stated in Note 12.

Estimated impairment of goodwill

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.

## 4 REVENUE

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Revenue consists of: | | | | | |
| Contracts | 32 | **68,973** | 58,187 | **-** | - |
| Sale of goods | | **2,120,339** | 2,064,746 | **-** | - |
| Dividend income | | **-** | - | **65,000** | 85,000 |
| Management fees | | **-** | - | **6,781** | 6,083 |
| | | **2,189,312** | 2,122,933 | **71,781** | 91,083 |

## 5 COST OF SALES

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| Cost of sales consists of: | | | |
| Amortisation of intangible assets | 16 | **26,399** | 15,729 |
| Depreciation of property, plant and equipment | 12 | **16,193** | 22,034 |
| Employee benefit expenses | 8 | **36,110** | 37,362 |
| Finished goods and work-in-progress purchases | | **1,527,979** | 1,489,252 |
| (Reversal of)/impairment of slow moving and obsolete inventories | | **(986)** | 4,863 |
| Inventories written off | | **3,304** | 769 |
| Inventories written down | | **556** | 680 |
| Raw materials and consumables used | | **114,598** | 110,533 |
| Selling and distribution costs | | **33,027** | 27,155 |
| Others | | **10,664** | 7,209 |
| Cost of inventories sold | | **1,767,844** | 1,715,586 |
| Contracts costs | 32 | **68,615** | 57,887 |
| | | **1,836,459** | 1,773,473 |

## 6 FINANCE COSTS

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Interest expenses on: | | | | | |
| - bankers' acceptances | | **5,681** | 2,672 | **-** | - |
| - revolving credits | | **9,066** | 7,881 | **3,468** | 4,148 |
| - foreign time loan | | **6,945** | 6,215 | **-** | - |
| | | **21,692** | 16,768 | **3,468** | 4,148 |
| Less: Interest expense capitalised as contract costs | 32 | **(6,546)** | - | **-** | - |
| | | **15,146** | 16,768 | **3,468** | 4,148 |

## 7 PROFIT BEFORE ZAKAT AND TAXATION

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

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Amortisation of intangible assets | 16 | **28,930** | 18,031 | **-** | - |
| Amortisation of prepaid lease payments | 13 | **128** | 51 | **-** | - |
| Auditors' remuneration: | | | | | |
| - statutory audit fees | | | | | |
| - PricewaterhouseCoopers, Malaysia | | **447** | 439 | **138** | 144 |
| - firms other than member firms of PricewaterhouseCoopers International Limited | | **139** | 44 | **-** | - |
| - (over)/under accrual in prior years | | **-** | (20) | **-** | 10 |
| - other non-audit fees | | **231** | 332 | **198** | 298 |
| Bad debts written off | | **258** | - | **-** | - |
| Directors' fees: | | | | | |
| - Executive | 8 | **30** | 26 | **-** | - |
| - Non-executive | | **646** | 684 | **532** | 532 |
| Directors' other allowances and emoluments | | **201** | 342 | **36** | 130 |

## 7 PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

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

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Employee benefit expenses | | **147,461** | 143,770 | **5,976** | 6,230 |
| Foreign exchange losses | | **3,372** | 803 | **65** | – |
| (Reversal of)/impairment loss on: | | | | | |
| - amounts due from subsidiaries | 20(a) | **-** | – | **(7,077)** | (5,232) |
| - investment in subsidiaries | 14 | **-** | – | **3,773** | – |
| - investment in an associate | 15 | **-** | 19 | **-** | 19 |
| - trade receivables | 18 | **(6,620)** | 3,844 | **-** | – |
| Property, plant and equipment: | | | | | |
| - depreciation | 12 | **27,979** | 31,642 | **-** | – |
| - written-off | 12 | **33** | 26 | **-** | – |
| Impairment of slow moving and obsolete inventories | | **4,064** | 11,811 | **-** | – |
| Inventories written off | | **3,304** | 769 | **-** | – |
| Inventories written down | | **556** | 680 | **-** | – |
| Management fees paid/payable to immediate holding company | | **301** | 330 | **168** | 132 |
| Rental of premises | | **11,419** | 7,045 | **4** | 3 |
| Rental of equipment | | **2,945** | 3,126 | **64** | 36 |
| Research and development expenses | | **4,814** | 3,136 | **-** | – |

(b) Other income

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Foreign exchange gains | **-** | – | **-** | 13 |
| Gain on disposal of property, plant and equipment | **20** | 106 | **-** | – |
| Rental income | **23** | 50 | **-** | – |
| Management fee for research project | **-** | 183 | **-** | – |
| Others | **320** | 469 | **38** | 31 |
| | **363** | 808 | **38** | 44 |

## 8 EMPLOYEE BENEFIT EXPENSES

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Salaries and bonuses | | **102,340** | 103,110 | **3,093** | 3,220 |
| Defined contribution plan | | **14,021** | 13,313 | **382** | 525 |
| Defined benefit plan | 31 | **1,214** | 965 | **–** | – |
| Other short-term employee benefits | | **28,256** | 24,795 | **874** | 898 |
| | | **145,831** | 142,183 | **4,349** | 4,643 |
| Executive director's remuneration: | | | | | |
| - Salaries and bonuses | | **1,380** | 1,338 | **1,380** | 1,338 |
| - Fee | | **30** | 26 | **–** | – |
| - Defined contribution plan | | **173** | 168 | **173** | 168 |
| Other short-term employee benefits | | **77** | 81 | **74** | 81 |
| | | **1,660** | 1,613 | **1,627** | 1,587 |
| Total | | **147,491** | 143,796 | **5,976** | 6,230 |
| Employee benefit expenses included in: | | | | | |
| - Cost of sales | 5 | **36,110** | 37,362 | **–** | – |
| - Administrative expenses | | **111,351** | 106,408 | **5,976** | 6,230 |
| Executive director's fee | 7(a) | **30** | 26 | **–** | – |
| | | **147,491** | 143,796 | **5,976** | 6,230 |

The estimated monetary value of benefits provided to a Director of the Company during the financial year amounted to RM37,200 (2014: RM37,870).

## 9 TAXATION

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| Current tax: | | | | | |
| - Malaysian income tax | | **26,499** | 33,047 | **-** | - |
| - foreign income tax | | **1,729** | 683 | **-** | - |
| - (over)/under accrual in prior years | | **(2,569)** | 2,069 | **-** | - |
| | | **25,659** | 35,799 | **-** | - |
| Deferred taxation: | | | | | |
| - origination and reversal of temporary differences | 30 | **1,779** | (4,444) | **-** | - |
| Tax expense | | **27,438** | 31,355 | **-** | - |

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 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Profit before taxation after zakat | **112,022** | 125,580 | **52,042** | 79,149 |
| Income tax at rate of 25% (2014: 25%) | **28,005** | 31,395 | **13,010** | 19,787 |
| Tax effects of: | | | | |
| Expenses not deductible for tax purpose | **5,237** | 10,061 | **4,215** | 2,997 |
| Expenses subject to double deduction | **(2,799)** | (2,661) | **-** | - |
| Income not subject to tax | **(103)** | (477) | **(18,034)** | (23,852) |
| Current year's deductible temporary differences and tax losses not recognised | **2,401** | 1,886 | **777** | 746 |
| Recognition of previously unrecognised temporary differences | **(2,440)** | (11,989) | **-** | - |
| (Over)/under accrual of tax in prior years | **(2,569)** | 2,670 | **-** | - |
| Change in tax rate | **(294)** | 470 | **32** | 322 |
| Tax expense | **27,438** | 31,355 | **-** | - |

## 10 EARNINGS PER SHARE

Basic and diluted earnings per share

Basic and diluted earnings per share of the Group is calculated by dividing the net profit attributable to owners of the Company for the financial year and the weighted average number of ordinary shares in issue during the year.

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| Net profit attributable to owners of the Company (RM'000) | **84,044** | 93,844 |
| Weighted average number of ordinary shares in issue ('000) | **258,882** | 258,882 |
| Basic and diluted earnings per share (sen) | **32.46** | 36.25 |

## 11 DIVIDENDS

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

| | Company | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | 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 2015: | | | | |
| - First interim single tier dividend | **7.00** | **18,122** | – | – |
| - Second interim single tier dividend | **7.00** | **18,122** | – | – |
| - Third interim single tier dividend | **9.00** | **23,299** | – | – |
| In respect of the financial year ended 31 December 2014: | | | | |
| - First interim single tier dividend | **-** | **-** | 4.00 | 10,355 |
| - Second interim single tier dividend | **-** | **-** | 4.00 | 10,355 |
| - Third interim single tier dividend | **-** | **-** | 8.00 | 20,711 |
| - Fourth interim single tier dividend | **12.00** | **31,066** | – | – |
| In respect of the financial year ended 31 December 2013: | | | | |
| - Fourth interim single tier dividend | **-** | **-** | 6.20 | 16,051 |
| | **35.00** | **90,609** | 22.20 | 57,472 |

## 11 DIVIDENDS (CONTINUED)

Subsequent to the end of the current financial year, the Directors have declared a fourth interim single tier dividend of 7.00 sen per share amounting to RM18,121,791 in respect of the financial year ended 31 December 2015. The dividend will be paid on 25 March 2016 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2016.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2015.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RM'000 | Furniture, fittings, renovation and equipment RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At 31 December 2015 | | | | | | |
| Cost | **299,668** | **109,083** | **10,739** | **238,795** | **25,714** | **683,999** |
| Accumulated depreciation | **(84,107)** | **(72,378)** | **(6,298)** | **(115,032)** | **–** | **(277,815)** |
| Net book value | **215,561** | **36,705** | **4,441** | **123,763** | **25,714** | **406,184** |
| At 31 December 2014 | | | | | | |
| Cost | 276,135 | 100,928 | 7,294 | 224,095 | 16,148 | 624,600 |
| Accumulated depreciation | (79,338) | (64,510) | (5,341) | (105,611) | – | (254,800) |
| Net book value | 196,797 | 36,418 | 1,953 | 118,484 | 16,148 | 369,800 |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Note | Land and buildings RM'000 | Furniture, fittings, renovation and equipment RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Movements in net book value | | | | | | | |
| At 1 January 2015 | | **196,797** | **36,418** | **1,953** | **118,484** | **16,148** | **369,800** |
| Acquisition of a business | 16 | **-** | **-** | **462** | **-** | **-** | **462** |
| Additions | | **23,445** | **13,927** | **2,947** | **8,892** | **11,469** | **60,680** |
| Disposals | | **-** | **(30)** | **-** | **(190)** | **-** | **(220)** |
| Written off | 7(a) | **-** | **(33)** | **-** | **-** | **-** | **(33)** |
| Capitalised as intangible assets | 16 | **-** | **(110)** | **-** | **(4)** | **-** | **(114)** |
| Reclassification | | **989** | **(6,665)** | **-** | **7,579** | **(1,903)** | **-** |
| Depreciation charged | 7(a) | **(6,516)** | **(8,644)** | **(1,079)** | **(11,740)** | **-** | **(27,979)** |
| Foreign exchange adjustments | | **846** | **1,842** | **158** | **742** | **-** | **3,588** |
| At 31 December 2015 | | **215,561** | **36,705** | **4,441** | **123,763** | **25,714** | **406,184** |
| At 1 January 2014 | | 191,102 | 25,960 | 1,820 | 119,252 | 15,234 | 353,368 |
| Acquisition of a subsidiary | 14 | 6,952 | 6,841 | 90 | 770 | - | 14,653 |
| Additions | | 6,269 | 10,685 | 734 | 9,826 | 5,864 | 33,378 |
| Disposals | | - | (278) | - | (235) | - | (513) |
| Written off | 7(a) | - | (26) | - | - | - | (26) |
| Reclassification | | 597 | 608 | - | 3,745 | (4,950) | - |
| Depreciation charged | 7(a) | (8,584) | (7,500) | (684) | (14,874) | - | (31,642) |
| Foreign exchange adjustments | | 461 | 128 | (7) | - | - | 582 |
| At 31 December 2014 | | 196,797 | 36,418 | 1,953 | 118,484 | 16,148 | 369,800 |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings on freehold land RM'000 | Buildings on long leasehold land RM'000 | Buildings on short leasehold land RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Analysis of land and buildings: | | | | | | |
| At 31 December 2015 | | | | | | |
| Cost | **25,175** | **26,878** | **119,164** | **115,382** | **13,069** | **299,668** |
| Accumulated depreciation | **-** | **(2,497)** | **(30,532)** | **(48,253)** | **(2,825)** | **(84,107)** |
| Net book value | **25,175** | **24,381** | **88,632** | **67,129** | **10,244** | **215,561** |
| At 31 December 2014 | | | | | | |
| Cost | 25,045 | 11,478 | 119,417 | 107,945 | 12,250 | 276,135 |
| Accumulated depreciation | – | (2,178) | (28,608) | (46,277) | (2,275) | (79,338) |
| Net book value | 25,045 | 9,300 | 90,809 | 61,668 | 9,975 | 196,797 |
| Movements in net book value | | | | | | |
| At 1 January 2015 | **25,045** | **9,300** | **90,809** | **61,668** | **9,975** | **196,797** |
| Additions | **-** | **15,400** | **-** | **8,045** | **-** | **23,445** |
| Reclassification | **-** | **-** | **-** | **989** | **-** | **989** |
| Depreciation charged | **-** | **(319)** | **(2,049)** | **(3,698)** | **(450)** | **(6,516)** |
| Foreign exchange adjustments | **130** | **-** | **(128)** | **125** | **719** | **846** |
| At 31 December 2015 | **25,175** | **24,381** | **88,632** | **67,129** | **10,244** | **215,561** |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings on freehold land RM'000 | Buildings on long leasehold land RM'000 | Buildings on short leasehold land RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Analysis of land and buildings: (continued) | | | | | | |
| Movements in net book value (continued) | | | | | | |
| At 1 January 2014 | 25,055 | 9,545 | 89,041 | 64,770 | 2,691 | 191,102 |
| Acquisition of a subsidiary | – | – | – | – | 6,952 | 6,952 |
| Additions | – | – | 5,674 | 595 | – | 6,269 |
| Reclassification | – | – | – | 597 | – | 597 |
| Depreciation charged | – | (245) | (3,903) | (4,286) | (150) | (8,584) |
| Foreign exchange adjustments | (10) | – | (3) | (8) | 482 | 461 |
| At 31 December 2014 | 25,045 | 9,300 | 90,809 | 61,668 | 9,975 | 196,797 |

| | 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 2015 | | | | |
| Cost | **24,993** | **30,517** | **53,573** | **109,083** |
| Accumulated depreciation | **(19,359)** | **(19,531)** | **(33,488)** | **(72,378)** |
| Net book value | **5,634** | **10,986** | **20,085** | **36,705** |
| At 31 December 2014 | | | | |
| Cost | 29,750 | 24,372 | 46,806 | 100,928 |
| Accumulated depreciation | (18,570) | (15,686) | (30,254) | (64,510) |
| Net book value | 11,180 | 8,686 | 16,552 | 36,418 |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Furniture and fittings RM'000 | Renovation RM'000 | Equipment RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Analysis of furniture, fittings, renovation and equipment: (continued) | | | | |
| Movements in net book value | | | | |
| At 1 January 2015 | **11,180** | **8,686** | **16,552** | **36,418** |
| Additions | **1,208** | **4,024** | **8,695** | **13,927** |
| Disposals | **(13)** | **-** | **(17)** | **(30)** |
| Written off | **(10)** | **-** | **(23)** | **(33)** |
| Capitalised as intangible assets | **(7)** | **(21)** | **(82)** | **(110)** |
| Reclassification | **(7,316)** | **455** | **196** | **(6,665)** |
| Depreciation charged | **(1,225)** | **(1,977)** | **(5,442)** | **(8,644)** |
| Foreign exchange adjustments | **1,817** | **(181)** | **206** | **1,842** |
| At 31 December 2015 | **5,634** | **10,986** | **20,085** | **36,705** |
| At 1 January 2014 | 4,325 | 6,871 | 14,764 | 25,960 |
| Acquisition of a subsidiary | 6,729 | – | 112 | 6,841 |
| Additions | 926 | 2,915 | 6,844 | 10,685 |
| Disposals | (92) | (163) | (23) | (278) |
| Written off | (4) | (18) | (4) | (26) |
| Reclassification | 105 | 502 | 1 | 608 |
| Depreciation charged | (836) | (1,529) | (5,135) | (7,500) |
| Foreign exchange adjustments | 27 | 108 | (7) | 128 |
| At 31 December 2014 | 11,180 | 8,686 | 16,552 | 36,418 |

Depreciation expense of the Group of RM16,193,000 (2014: RM22,034,000) has been charged in 'cost of sales' and RM11,786,000 (2014: RM9,608,000) in 'administrative expenses'.

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| Plant and machinery | **1,379** | 1,911 |
| Motor vehicles | **212** | 384 |
| Equipment | **626** | 801 |
| | **2,217** | 3,096 |

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

| | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| Acquisition of property, plant and equipment during the financial year | **60,680** | 33,378 |
| Less: Accrual of property, plant and equipment | **(451)** | (1,069) |
| Less: Acquired through hire purchase arrangement | **-** | (875) |
| Add: Payments for property, plant and equipment purchased in prior year | **1,069** | - |
| Net cash outflow for the acquisition of property, plant and equipment | **61,298** | 31,434 |

Impairment assessment for property, plant and equipment and capitalised development costs included within intangible assets

An impairment assessment was undertaken in the current financial year for the Group's small volume injectable production plant as the plant has been reporting losses.

The carrying amount of assets totalling RM137.7 million (2014: RM131.8 million) comprising property, plant and equipment and capitalised development costs of work-in-progress (Note 16) included in intangible assets of RM132.8 million and RM4.9 million respectively 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.

Embedded in the development of the cash flow projections are assumptions and estimates derived from a review of the cash-generating unit's operating results, approved business plans, expected market and industry growth rates, as well as, future economic conditions and other data.

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment assessment for property, plant and equipment and capitalised development costs included within intangible assets (continued)

(i) Assumptions and approach used

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a sixteen-year period that reflects the industry, the estimated remaining useful life of the plant 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 sixteen-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, 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 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 growth rates ranges between 1% to 15% (2014: 1% to 10%).

- Values of land and buildings – The estimated value of the land of RM42.3 million (2014: RM42.3 million) is based on an independent external valuation and approximates the present value of the cash flows expected to be received from these assets at the end of sixteen years. 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 recoverable amounts.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, pre-tax discount rate of 11.3% (2014: 12.5%) have 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 for property, plant and equipment and intangible asset as at 31 December 2015 as their recoverable amounts were in excess of their carrying amounts.

(ii) Impact of possible changes in key assumptions

| Assumptions | Recoverable amount RM'000 | Carrying amount RM'000 | Headroom RM'000 |
|---|---|---|---|
| Decrease in sales volume by 5% | 168,948 | 137,644 | 31,304 |
| Increase in discount rate by 1% to 12.3% | 175,020 | 137,644 | 37,376 |

The sensitivity tests did not indicate any impairment when realistic variations are applied to the key assumptions.

## 13 PREPAID LEASE PAYMENTS

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| Cost | | **3,421** | 3,212 |
| Accumulated amortisation | | **(793)** | (665) |
| Net book value | | **2,628** | 2,547 |

Movements in net book value

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| At 1 January | | **2,547** | 1,075 |
| Acquisition of a subsidiary | 14 | **-** | 1,480 |
| Amortisation during the financial year | 7(a) | **(128)** | (51) |
| Foreign exchange adjustments | | **209** | 43 |
| At 31 December | | **2,628** | 2,547 |

## 14 SUBSIDIARIES

| | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|
| Unquoted shares, at cost | **357,554** | 357,554 |
| Less: Accumulated impairment | **(378)** | (378) |
| | **357,176** | 357,176 |
| Amount due from a subsidiary | **79,434** | 79,434 |
| Less: Accumulated impairment | **(3,773)** | - |
| | **75,661** | 79,434 |
| | **432,837** | 436,610 |

The amount due from a subsidiary of which the Company does not expect repayment in the foreseeable future is considered as part of the Company's investment in the subsidiary.

## 14 SUBSIDIARIES (CONTINUED)

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

| Name of company | Principal activities | Paid-up capital | Effective equity interest (%) 2015 | 2014 |
|---|---|---|---|---|
| **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 | RM75,000,000 | **100** | 100 |
| Pharmaniaga Logistics Sdn. Bhd. | Distribution of pharmaceutical and medical products | RM40,000,000 | **100** | 100 |
| Pharmaniaga Marketing Sdn. Bhd. | Trading and marketing of pharmaceutical and medical products | RM3,000,000 | **100** | 100 |
| Pharmaniaga Research Centre Sdn. Bhd. | Conduct research and development of pharmaceutical products | RM100,000 | **100** | 100 |
| Pharmaniaga Pristine Sdn. Bhd. | Trading and wholesaling of consumer products | RM20,000,050 | **100** | 100 |

## 14 SUBSIDIARIES (CONTINUED)

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

| Name of company | Principal activities | Paid-up capital | Effective equity interest (%) 2015 | 2014 |
|---|---|---|---|---|
| **Subsidiaries of the Company** (continued) | | | | |
| Insurgress Sdn. Bhd. | Dormant, pending strike off | RM2 | **100** | 100 |
| Pharmaniaga International Corporation Sdn. Bhd. | Investment holding | RM12,000,000 | **100** | 100 |
| Pharmaniaga Pegasus (Seychelles) Co. Ltd. @ | Dormant | USD100,000 | **100** | 100 |
| Pharmaniaga Biovention Sdn. Bhd. | Dormant, pending strike off | RM2 | **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 |
| **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 | Rp72,800,000,000 | **55** | 55 |
| PT Mega Pharmaniaga *# ("PT MegPha") | Trading and marketing of pharmaceutical and medical products in Indonesia | Rp11,372,400,000 | **95** | 95 |

## 14 SUBSIDIARIES (CONTINUED)

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

| Name of company | Principal activities | Paid-up capital | Effective equity interest (%) 2015 | Effective equity interest (%) 2014 |
|---|---|---|---|---|
| **Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd.** (continued) | | | | |
| PT Errita Pharma *# ("PT Errita") | Manufacture and sale of pharmaceutical products in Indonesia | Rp95,832,000,000 | **75** | 75 |

* Audited by firms other than member firms of PricewaterhouseCoopers International Limited and PricewaterhouseCoopers, Malaysia
@ Incorporated in Republic of Seychelles
# Incorporated in Indonesia

Impairment assessment for cost of investment

As described in Note 12, the Company has undertaken an impairment assessment in the current financial year for its investment in a subsidiary that operates the Group's small volume injectable production plant using the same discounted future cash flows, adjusted for tax and repayment of intercompany balances. In measuring the recoverable amount determined based on value-in-use calculations, discount rate of 11.14% (2014: 11.93%), representing the cost of equity has been applied. Refer to Note 12 for the key assumptions.

No impairment was required for the investment in the subsidiary as at 31 December 2015 as the recoverable amount was in excess of its carrying amount.

The impact of possible changes in key assumptions is as follows:

| Assumptions | Recoverable amount RM'000 | Carrying amount RM'000 | Headroom RM'000 |
|---|---|---|---|
| Decrease in sales volume by 5% | 86,515 | 75,000 | 11,515 |
| Increase in discount rate by 1% to 12.14% | 96,316 | 75,000 | 21,316 |

## 14 SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary in prior financial year

On 18 February 2014, the Group had through its wholly-owned subsidiary, Pharmaniaga International Corporation Sdn. Bhd., completed the acquisition of 75% equity interest in PT Errita Pharma, a manufacturer of pharmaceutical products in Indonesia for a total cash consideration of USD22.32 million (equivalent to RM74.05 million).

The fair value of the net assets acquired, goodwill and cash flow arising from the acquisition is as follows:

| | Carrying values RM'000 | Fair values at date of acquisition RM'000 |
|---|---|---|
| Property, plant and equipment | 11,626 | 14,653 |
| Prepaid lease payments | 793 | 1,480 |
| Inventories | 4,854 | 4,854 |
| Intangible assets | – | 18,879 |
| Other receivables | 48 | 48 |
| Cash and cash equivalents | 285 | 285 |
| Other payables | (154) | (154) |
| Provision for defined benefit plan (Note 31) | (789) | (789) |
| Deferred tax liabilities (Note 30) | – | (5,648) |
| Fair value of total identifiable net assets acquired | 16,663 | 33,608 |
| Less: Total fair value of net assets held by non-controlling interest | | (8,402) |
| Identifiable net assets acquired | | 25,206 |
| Goodwill on acquisition | | 48,848 |
| Total purchase consideration | | 74,054 |
| Less: Cash and cash equivalents of subsidiary acquired | | (285) |
| Less: Deposit paid in the previous financial year | | (4,505) |
| Cash outflow of the Group on acquisition of a subsidiary | | 69,264 |

The Group had completed the final Purchase Price Allocation exercise on the above acquisition during the current financial year. No adjustments were required to the provisional fair values recognised on the acquisition date.

## 14 SUBSIDIARIES (CONTINUED)

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for the Group's subsidiaries, PT Millennium Pharmacon International TbK ("PT MPI") and PT Errita Pharma ("PT Errita") that have non-controlling interests that are material to the Group.

**Summarised statement of financial position**

| | PT Errita | | PT MPI | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Current | | | | |
| Assets | **21,810** | 17,615 | **190,741** | 147,642 |
| Liabilities | **(18,233)** | (11,942) | **(144,634)** | (110,314) |
| Total current net assets | **3,577** | 5,673 | **46,107** | 37,328 |
| Non-current | | | | |
| Assets | **37,499** | 35,551 | **5,950** | 5,461 |
| Liabilities | **(895)** | (6,713) | **(6,564)** | (5,517) |
| Total non-current net assets/(liabilities) | **36,604** | 28,838 | **(614)** | (56) |
| Net assets | **40,181** | 34,511 | **45,493** | 37,272 |
| Net assets attributable to non-controlling interests at the end of the financial year | **10,045** | 8,628 | **20,472** | 16,772 |

## 14 SUBSIDIARIES (CONTINUED)

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

**Summarised income statement**

| | PT Errita | | PT MPI | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Revenue | **22,382** | 19,560 | **485,609** | 399,431 |
| (Loss)/profit before taxation | **(4,758)** | (3,157) | **5,481** | 3,437 |
| Taxation | **560** | 244 | **(1,801)** | (890) |
| Net (loss)/profit for the financial year | **(4,198)** | (2,913) | **3,680** | 2,547 |
| Other comprehensive income | **9,866** | 3,077 | **4,542** | 342 |
| Total comprehensive income, net of tax for the financial year | **5,668** | 164 | **8,222** | 2,889 |
| Total comprehensive income allocated to non-controlling interests | **1,417** | 41 | **3,700** | 1,300 |

**Summarised statement of cash flows**

| | PT Errita 2015 RM'000 | PT Errita 2014 RM'000 | PT MPI 2015 RM'000 | PT MPI 2014 RM'000 |
|---|---|---|---|---|
| Cash (used in)/generated from operations | **(4,921)** | (323) | **(24,089)** | 6,089 |
| Interest paid | **(361)** | (14) | **(7,320)** | (5,811) |
| Tax paid | **-** | - | **(2,396)** | (1,798) |
| Net cash used in operating activities | **(5,282)** | (337) | **(33,805)** | (1,520) |
| Net cash used in investing activities | **(3,053)** | (22) | **(1,217)** | (1,136) |
| Net cash generated from financing activities | **7,433** | 2,434 | **27,420** | 15,271 |
| Net changes in cash and cash equivalents | **(902)** | 2,075 | **(7,602)** | 12,615 |
| Cash and cash equivalents at beginning of financial year/date of acquisition | **2,368** | 285 | **17,956** | 5,099 |
| Foreign exchange differences | **180** | 8 | **826** | 242 |
| Cash and cash equivalents at end of financial year | **1,646** | 2,368 | **11,180** | 17,956 |

## 15 INVESTMENT IN AN ASSOCIATE

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Unquoted shares, at cost | 19 | 19 | 19 | 19 |
| Less: Accumulated impairment | (19) | (19) | (19) | (19) |
| | – | – | – | – |

Details of the associate are as follows:

| Name of company | Principal activities | Paid-up capital | Effective equity interest (%) 2015 | Effective equity interest (%) 2014 |
|---|---|---|---|---|
| Pharmacare Asia Holdings (Cayman) Limited + | Dormant, pending strike off | USD4,900 | 49 | 49 |

+ Incorporated in Cayman Island

## 16 INTANGIBLE ASSETS

| | Goodwill RM'000 | Software RM'000 | Rights to supply RM'000 | Capitalised development cost of work-in-progress RM'000 | Pharmacy manu-facturing licence RM'000 | Trade name RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2015 | **139,327** | **3,538** | **110,391** | **1,042** | **15,680** | **3,750** | **273,728** |
| Acquisition of a business | **938** | **-** | **-** | **-** | **-** | **-** | **938** |
| Additions | **-** | **-** | **66,766** | **4,945** | **-** | **-** | **71,711** |
| Transferred from property, plant and equipment (Note 12) | **-** | **-** | **-** | **114** | **-** | **-** | **114** |
| Foreign exchange adjustments | **5,406** | **427** | **-** | **-** | **1,612** | **386** | **7,831** |
| At 31 December 2015 | **145,671** | **3,965** | **177,157** | **6,101** | **17,292** | **4,136** | **354,322** |
| Accumulated amortisation | | | | | | | |
| At 1 January 2015 | **-** | **2,310** | **23,956** | **-** | **1,597** | **230** | **28,093** |
| Amortisation charged (Note 7(a)) | **-** | **523** | **26,399** | **-** | **1,756** | **252** | **28,930** |
| Foreign exchange adjustments | **-** | **350** | **-** | **-** | **164** | **24** | **538** |
| At 31 December 2015 | **-** | **3,183** | **50,355** | **-** | **3,517** | **506** | **57,561** |
| Accumulated impairment | | | | | | | |
| At 1 January 2015/ 31 December 2015 | **12,653** | **-** | **-** | **-** | **-** | **-** | **12,653** |
| Net book value | | | | | | | |
| At 31 December 2015 | **133,018** | **782** | **126,802** | **6,101** | **13,775** | **3,630** | **284,108** |

## 16 INTANGIBLE ASSETS (CONTINUED)

| | Goodwill RM'000 | Software RM'000 | Rights to supply RM'000 | Capitalised development cost of work-in-progress RM'000 | Pharmacy manu-facturing licence RM'000 | Trade name RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2014 | 89,825 | 3,346 | 104,981 | – | – | – | 198,152 |
| Acquisition of a subsidiary (Note 14) | 48,848 | – | – | – | 15,235 | 3,644 | 67,727 |
| Additions | – | – | 56,493 | 1,042 | – | – | 57,535 |
| Written off | – | – | (51,083) | – | – | – | (51,083) |
| Foreign exchange adjustments | 654 | 192 | – | – | 445 | 106 | 1,397 |
| At 31 December 2014 | 139,327 | 3,538 | 110,391 | 1,042 | 15,680 | 3,750 | 273,728 |
| Accumulated amortisation | | | | | | | |
| At 1 January 2014 | – | 1,681 | 59,310 | – | – | – | 60,991 |
| Amortisation charged (Note 7(a)) | – | 511 | 15,729 | – | 1,566 | 225 | 18,031 |
| Written off | – | – | (51,083) | – | – | – | (51,083) |
| Foreign exchange adjustments | – | 118 | – | – | 31 | 5 | 154 |
| At 31 December 2014 | – | 2,310 | 23,956 | – | 1,597 | 230 | 28,093 |
| Accumulated impairment | | | | | | | |
| At 1 January 2014/ 31 December 2014 | 12,653 | – | – | – | – | – | 12,653 |
| Net book value | | | | | | | |
| At 31 December 2014 | 126,674 | 1,228 | 86,435 | 1,042 | 14,083 | 3,520 | 232,982 |

## 16 INTANGIBLE ASSETS (CONTINUED)

During the financial year, amortisation of RM26,399,000 (2014: RM15,729,000) is included in 'cost of sales' and RM2,531,000 (2014: RM2,302,000) in 'administrative expenses' in profit or loss.

In the previous financial year, the rights to supply under the Supply Agreement held by Idaman Pharma Manufacturing Sdn. Bhd. have expired. Accordingly, the cost and corresponding accumulated amortisation of RM51.1 million respectively had been written off in the previous financial year.

The net cash outflow for the acquisition of intangible assets during the financial year is as follows:

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Additions during the financial year | **71,711** | 57,535 |
| Less: Accrual of intangible assets | **(18,210)** | (2,886) |
| Add: Payment for intangible assets acquired in prior year | **2,886** | – |
| Net cash outflow on the acquisition of intangible assets | **56,387** | 54,649 |

Acquisition of a business during the financial year

During the financial year, the Group had through its wholly-owned subsidiary, Pharmaniaga Logistics Sdn. Bhd. acquired a business from a third party for a purchase consideration of RM1,400,000. The acquisition has been accounted for under MFRS 3 Business Combinations. The goodwill arising from the acquisition represents the expected business synergies from the combination of operations between the acquiree's business and the Group.

The fair value of the identified net assets acquired and cash flow arising from the acquisition is as follows:

| | At the date of acquisition RM'000 |
|---|---|
| Identifiable net assets acquired – Property, plant and equipment (Note 12) | 462 |
| Goodwill on acquisition | 938 |
| Total purchase consideration, representing cash outflow to the Group | 1,400 |

## 16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

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

| | 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Malaysia | | |
| Trading and distribution | **16,839** | 15,901 |
| Manufacturing | **58,205** | 58,205 |
| Indonesia | | |
| Trading and distribution | **2,530** | 2,294 |
| Manufacturing | **55,444** | 50,274 |
| **Total** | **133,018** | 126,674 |

No impairment loss was required for the carrying amounts of goodwill assessed as at 31 December 2015 as their recoverable amounts were in excess of their carrying amounts.

The recoverable amounts of the CGUs are determined based on value-in-use ("VIU") calculations. Cash flows are derived based on financial budgets approved by the Directors covering a five-year period except for the manufacturing CGU in Indonesia that covers a period of ten years that reflects the product lifecycle of the plant. The projections reflect management's expectation of revenue growth, operating costs and margins for the CGUs based on current assessment of market share, expectations of market growth and industry growth.

The key assumptions used in VIU calculations are as follows:

| | Malaysia | | Indonesia | |
|---|---|---|---|---|
| | Trading and distribution | Manufacturing | Trading and distribution | Manufacturing |
| **2015** | | | | |
| Growth rate by product | 6.5% to 8.1% | (0.1%) to 31.0% | 17.0% to 17.5% | (22.4%) to 26.1% |
| Cost growth rate by product | 5.5% to 7.5% | 1.0% to 32.3% | 16.9% to 17.4% | (30.9%) to 25.1% |
| Pre-tax discount rate | 11.3% | 11.3% | 10.4% | 14.6% |
| **2014** | | | | |
| Growth rate by product | 2.3% to 13.6% | 1.1% to 4.1% | 15% | (8%) to 15% |
| Cost growth rate by product | 3.1% to 15.0% | 3.1% to 5.3% | 15% | (8%) to 15% |
| Pre-tax discount rate | 12.3% | 12.5% | 8.6% | 15.3% |

## 16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (continued)

(i) 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) Cost growth is determined based on past performance and expected inflationary factors.

(iii) Contribution margins are projected based on the industry trends, together with the trends observed by the Group.

(iv) Terminal growth rate of 0% that reflects long term growth forecast is applied in the VIU calculations.

(v) 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

As at 31 December 2015, the capitalised development costs of work-in-progress other than the costs relating to the Group's small volume injectable production plant which had been assessed together with the related property, plant and equipment (see Note 12) amounting to RM1.2 million (2014: Nil) 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.

Embedded in the development of the cash flow projections are assumptions and estimates derived from a review of the cash-generating unit's operating results, approved business plans, expected market and industry growth rates, as well as, future economic conditions and other data.

(i) Assumptions and approach used

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a fifteen-year period that reflects the industry, product lifecycle from development, stability testing, product registration and commercialisation. The sales volume used in the value-in-use calculations is based on the respective product lifecycle and new products under development. The business plan reflects the cash-generating unit's expectation of plant capacity and utilisation, revenue growth, operating costs and margins based on past experience, current assessment of market share, expectations of market growth and industry growth.

The key assumptions used in the value-in-use calculations are set out below:

- Business analysis – The cash-generating unit makes assumptions about the demand for these new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation using a projected long-term average growth rate of 5% (2014: Nil). Cost levels are determined based on the average inflation rate in Malaysia.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, pre-tax discount rate of 11.3% (2014: Nil) 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 for capitalised development costs work-in-progress as at 31 December 2015 as their recoverable amounts were in excess of their carrying amounts.

## 17 INVENTORIES

| | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| Raw materials | **36,751** | 30,957 |
| Packaging materials | **18,627** | 18,176 |
| Work-in-progress | **8,049** | 5,247 |
| Finished goods | **476,469** | 372,655 |
| | **539,896** | 427,035 |

## 18 TRADE RECEIVABLES

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| Current | | | |
| Trade receivables | | **156,263** | 132,746 |
| Less: Provision for impairment of trade receivables | | **(8,969)** | (16,871) |
| | | **147,294** | 115,875 |
| Amounts due from customers on contracts | 32 | **367** | 1,127 |
| | | **147,661** | 117,002 |
| Non-current | | | |
| Trade receivables | | **11,041** | 12,132 |
| Less: Provision for impairment of trade receivables | | **(1,454)** | (1,527) |
| | | **9,587** | 10,605 |

The credit terms of trade receivables range from 30 days to 120 days (2014: 30 days to 120 days).

## 18 TRADE RECEIVABLES (CONTINUED)

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Neither past due nor impaired | **12,493** | 16,517 |
| Past due but not impaired: | | |
| - Less than three months | **117,638** | 72,396 |
| - Between three to six months | **9,065** | 16,888 |
| - Between six months and one year | **3,285** | 12,552 |
| - Greater than one year | **3,480** | 3,763 |
| | **133,468** | 105,599 |
| Impaired | **21,343** | 22,762 |
| | **167,304** | 144,878 |

Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are substantially government-related entities and companies with no history of default with the Group.

Trade receivables that are past due but not impaired

As at 31 December 2015, trade receivables of RM133.5 million (2014: RM105.6 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

Trade receivables that are impaired

As at 31 December 2015, trade receivables of RM21.3 million (2014: RM22.8 million) were impaired and provided for. The amount of the provision was RM10.4 million as of 31 December 2015 (2014: RM18.4 million). The individually impaired receivables mainly relate to private customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

## 18 TRADE RECEIVABLES (CONTINUED)

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

| | | Group | |
|---|---|---|---|
| | Note | 2015 RM'000 | 2014 RM'000 |
| At 1 January | | **18,398** | 18,054 |
| (Write back of)/provision for impairment during the financial year | 7(a) | **(6,620)** | 3,844 |
| Written off | | **(1,543)** | (3,500) |
| Foreign exchange differences | | **188** | – |
| At 31 December | | **10,423** | 18,398 |

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure of credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

## 19 OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Current | | | | |
| Other receivables | **4,955** | 4,399 | **78** | 38 |
| Less: Provision for impairment of other receivables | **(108)** | (108) | **-** | – |
| | **4,847** | 4,291 | **78** | 38 |
| Prepayments | **21,710** | 19,571 | **258** | 205 |
| Deposits | **2,823** | 2,052 | **1** | 28 |
| GST receivables | **18,214** | – | **-** | – |
| | **47,594** | 25,914 | **337** | 271 |
| Non-current | | | | |
| Prepayments | **-** | 1,450 | **-** | 1,450 |

## 19 OTHER RECEIVABLES (CONTINUED)

Ageing analysis of other receivables

The ageing analysis of other receivables is as follows:

| | Group | |
|---|---|---|
| | 2015<br>RM'000 | 2014<br>RM'000 |
| Neither past due nor impaired | **3,070** | 545 |
| Past due but not impaired: | | |
| - Less than three months | **1,747** | 1,113 |
| - Between three to six months | **5** | 2,406 |
| - Between six months and one year | **8** | – |
| - Greater than one year | **17** | 227 |
| | **1,777** | 3,746 |
| Impaired: | | |
| - Greater than one year | **108** | 108 |
| | **4,955** | 4,399 |

Other receivables that are neither past due nor impaired

Other receivables of the Company of RM78,000 (2014: RM38,000) are neither past due nor impaired.

Other receivables that are neither past due nor impaired are substantially companies with no history of default with the Group and the Company.

Other receivables that are past due but not impaired

As at 31 December 2015, other receivables of the Group amounting to RM1.8 million (2014: RM3.7 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

Other receivables that are impaired

As at 31 December 2015, other receivables of the Group of RM0.1 million (2014: RM0.1 million) were impaired and provided for. The impaired receivable relates to a private customer, which is currently under dispute.

## 19 OTHER RECEIVABLES (CONTINUED)

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

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **RM'000** | **RM'000** |
| At 1 January/31 December | **108** | 108 |

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovery.

## 20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

| | Company | |
|---|---|---|
| | **2015** | **2014** |
| | **RM'000** | **RM'000** |
| Non-current | | |
| Amount due from a subsidiary | **138,506** | 117,730 |
| Less: Provision for impairment | **(31,268)** | (37,188) |
| Amount due from a subsidiary - net | **107,238** | 80,542 |

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

| | Company | |
|---|---|---|
| | **2015** | **2014** |
| | **RM'000** | **RM'000** |
| Current | | |
| Amounts due from subsidiaries | **90,632** | 126,208 |
| Less: Provision for impairment | **(26,476)** | (27,633) |
| Amounts due from subsidiaries - net | **64,156** | 98,575 |

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

(a) Amounts due from subsidiaries (continued)

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. Included in amounts due from subsidiaries in the previous financial year was an advance to a subsidiary of RM40.9 million that bore interest at 3.90% to 4.05% per annum. This advance was repaid during the financial year.

As at 31 December 2015, out of the total gross amounts due from subsidiaries of RM229.1 million (2014: RM243.9 million), amounts due from subsidiaries totalling RM182.9 million (2014: RM160.5 million) were impaired. The remaining balances of RM46.2 million (2014: RM83.4 million) were not impaired as there is no expectation of default based on expected future operational cash flows of these subsidiaries. The amount of the provision was RM57.7 million as at 31 December 2015 (2014: RM64.8 million). The individually impaired receivables relate to subsidiaries, for which the expectation of recovery is after 12 months.

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

| | Company | |
|---|---|---|
| | **2015** | **2014** |
| | **RM'000** | **RM'000** |
| At 1 January | **64,821** | 70,053 |
| Write back of impairment during the financial year | **(7,077)** | (5,232) |
| At 31 December | **57,744** | 64,821 |

(b) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Dividend income from subsidiaries totalling RM65.0 million (2014: RM85.0 million) during the financial year was set off with amounts due to subsidiaries.

## 21 AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment.

## 22 DEPOSITS, CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 RM'000** | **2014 RM'000** | **2015 RM'000** | **2014 RM'000** |
| Cash and bank balances | **21,450** | 31,392 | **189** | 562 |
| Deposits with licensed banks | **1,068** | 590 | **–** | – |
| | **22,518** | 31,982 | **189** | 562 |

Deposits with licensed banks of the Group as at the end of financial year have an average maturity period of 3 (2014: 3) days and a weighted average effective interest rate of 3.64% (2014: 3.25%) per annum.

Cash and bank balances are deposits held at call with banks and earn no interest except for bank balances amounting to RM2.0 million (2014: RM2.2 million) that earns interest at 2.80% (2014: 2.78%) per annum.

## 23 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2014: 30 days to 120 days).

## 24 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 RM'000** | **2014 RM'000** | **2015 RM'000** | **2014 RM'000** |
| Other payables | **37,791** | 25,923 | **1,730** | 2,223 |
| Accruals | **13,402** | 24,980 | **2,135** | 633 |
| | **51,193** | 50,903 | **3,865** | 2,856 |

## 25 AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company arose from management fees and payments made on behalf. This amount is unsecured, interest free and has no fixed terms of repayment.

## 26 DEFERRED INCOME

| | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| At beginning of financial year | **152** | – |
| Issued during the financial year | **1,160** | 855 |
| Recognition of income during the financial year | **(1,116)** | (703) |
| At end of financial year | **196** | 152 |
| Analysed as: | | |
| - Current | **196** | 152 |

In the previous financial year, the Group embarked on the RoyalePharma cash voucher programme. Each voucher has a 3 month validity period from the month of issuance. Unutilised expired vouchers will be recognised as income upon expiry.

## 27 LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Current | | | | |
| Unsecured: | | | | |
| - Bankers' acceptances | **73,662** | 23,566 | **-** | – |
| - Revolving credits | **245,000** | 115,000 | **80,000** | 65,000 |
| - Foreign time loan | **80,384** | 60,968 | **-** | – |
| | **399,046** | 199,534 | **80,000** | 65,000 |
| Secured: | | | | |
| - Hire purchase | **567** | 546 | **-** | – |
| | **399,613** | 200,080 | **80,000** | 65,000 |
| Non-current | | | | |
| Secured: | | | | |
| - Hire purchase | **558** | 1,060 | **-** | – |
| Total | | | | |
| Bankers' acceptances | **73,662** | 23,566 | **-** | – |
| Revolving credits | **245,000** | 115,000 | **80,000** | 65,000 |
| Foreign time loan | **80,384** | 60,968 | **-** | – |
| Hire purchase | **1,125** | 1,606 | **-** | – |
| | **400,171** | 201,140 | **80,000** | 65,000 |

## 27 LOANS AND BORROWINGS (CONTINUED)

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Hire purchase liabilities | | | | |
| Minimum payments: | | | | |
| - Payable within 1 year | **644** | 651 | **-** | - |
| - Payable between 1 and 5 years | **566** | 1,159 | **-** | - |
| | **1,210** | 1,810 | **-** | - |
| Less: Future finance charges | **(85)** | (204) | **-** | - |
| Present value of liabilities | **1,125** | 1,606 | **-** | - |

Hire purchase liabilities are effectively secured on the rights to the leased assets which reverts to the lessors in the event of default.

The net exposure of loans and borrowings of the Group and of the Company to interest rate changes and the periods in which the loans and borrowings mature are as follows:

| | Effective interest rate at year end % per annum | Fixed interest rate RM'000 | Floating interest rate RM'000 | Repayment terms <1 year RM'000 | Repayment terms >1 year RM'000 | Total carrying amount RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At 31.12.2015 | | | | | | |
| Bankers' acceptances | **3.63** | **73,662** | **-** | **73,662** | **-** | **73,662** |
| Revolving credits | **4.43** | **245,000** | **-** | **245,000** | **-** | **245,000** |
| Foreign time loan | **9.73** | **-** | **80,384** | **80,384** | **-** | **80,384** |
| Hire purchase | **5.01** | **1,125** | **-** | **567** | **558** | **1,125** |
| | | **319,787** | **80,384** | **399,613** | **558** | **400,171** |
| At 31.12.2014 | | | | | | |
| Bankers' acceptances | 3.50 | 23,566 | - | 23,566 | - | 23,566 |
| Revolving credits | 4.02 | 115,000 | - | 115,000 | - | 115,000 |
| Foreign time loan | 11.89 | - | 60,968 | 60,968 | - | 60,968 |
| Hire purchase | 6.52 | 1,606 | - | 546 | 1,060 | 1,606 |
| | | 140,172 | 60,968 | 200,080 | 1,060 | 201,140 |

## 27 LOANS AND BORROWINGS (CONTINUED)

| | Effective interest rate at year end % per annum | Fixed interest rate RM'000 | Floating interest rate RM'000 | Repayment terms <1 year RM'000 | Repayment terms >1 year RM'000 | Total carrying amount RM'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| At 31.12.2015 | | | | | | |
| Revolving credits | **4.67** | **80,000** | **-** | **80,000** | **-** | **80,000** |
| At 31.12.2014 | | | | | | |
| Revolving credits | 4.20 | 65,000 | – | 65,000 | – | 65,000 |

Foreign time loan

The foreign time loan was drawn down to finance the working capital and procurement of vehicle and building. The foreign time loan is denominated in Indonesian Rupiah.

The fair values of current and non-current loans and borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The carrying amounts of the Group and of the Company's loans and borrowings are denominated in the following currencies:

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Ringgit Malaysia | **315,319** | 138,203 | **80,000** | 65,000 |
| Indonesian Rupiah | **84,852** | 61,245 | **-** | – |
| United States Dollar | **-** | 1,692 | **-** | – |
| | **400,171** | 201,140 | **80,000** | 65,000 |

## 28 SHARE CAPITAL

| | Group and Company 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Ordinary shares of RM0.50 each: | | |
| Authorised: | | |
| At 1 January/31 December | **300,000** | 300,000 |
| Issued and fully paid: | | |
| At 1 January/31 December | **129,441** | 129,441 |

## 29 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 (2014: RM1,666,574).

## 30 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 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Deferred tax assets: | | |
| - Deferred tax assets to be recovered after more than 12 months | **23,826** | 18,594 |
| - Deferred tax assets to be recovered within 12 months | **435** | 2,476 |
| | **24,261** | 21,070 |
| Deferred tax liabilities: | | |
| - Deferred tax liabilities to be recovered after more than 12 months | **(31,665)** | (26,045) |
| - Deferred tax liabilities to be recovered within 12 months | **(1,754)** | (2,245) |
| | **(33,419)** | (28,290) |
| Deferred tax liabilities (net) | **(9,158)** | (7,220) |

## 30 DEFERRED TAXATION (CONTINUED)

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| At beginning of financial year | | **(7,220)** | (6,209) |
| Acquisition of a subsidiary | 14 | **-** | (5,648) |
| (Charged)/credited to income statement: | | | |
| - property, plant and equipment | | **(7,005)** | 4,747 |
| - provisions | | **3,837** | 1,616 |
| - unutilised tax losses | | **3,895** | 7,540 |
| - intangible assets | | **(2,506)** | (9,459) |
| | 9 | **(1,779)** | 4,444 |
| Foreign exchange adjustments | | **(159)** | 193 |
| At end of financial year | | **(9,158)** | (7,220) |

Subject to income tax

| | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| Deferred tax assets (before offsetting): | | |
| - property, plant and equipment | **3,671** | 11,716 |
| - provisions | **17,455** | 13,777 |
| - unutilised tax losses | **11,907** | 8,012 |
| | **33,033** | 33,505 |
| Offsetting | **(8,772)** | (12,435) |
| Deferred tax assets (after offsetting) | **24,261** | 21,070 |
| Deferred tax liabilities (before offsetting): | | |
| - property, plant and equipment | **(13,741)** | (14,781) |
| - intangible assets | **(28,450)** | (25,944) |
| | **(42,191)** | (40,725) |
| Offsetting | **8,772** | 12,435 |
| Deferred tax liabilities (after offsetting) | **(33,419)** | (28,290) |

## 30 DEFERRED TAXATION (CONTINUED)

The amount of unutilised tax losses, unabsorbed capital allowances and deductible temporary differences (all of which have no expiry) for which no deferred tax asset is recognised in the Group and in the Company's financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015<br>RM'000 | 2014<br>RM'000 | 2015<br>RM'000 | 2014<br>RM'000 |
| Unutilised tax losses | **76,096** | 66,739 | **35,339** | 32,023 |
| Unabsorbed capital allowances | **1,394** | 763 | **31** | 29 |
| Deductible temporary differences | **1,034** | 1,018 | **631** | 710 |
| Reinvestment allowances | **5,487** | 5,487 | **–** | – |
| | **84,011** | 74,007 | **36,001** | 32,762 |
| Deferred tax assets not recognised at 24% (2014: 24%) | **20,163** | 17,762 | **8,640** | 7,863 |

The deductible temporary differences, unabsorbed capital allowances and unutilised tax losses are available indefinitely for offset against future taxable profits of the Group and 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. Deferred tax assets have not been recognised in respect of the deductible temporary differences, unabsorbed capital allowances and unutilised tax losses of certain entities within the Group as these entities have a history of losses or are dormant.

## 31 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 carried out on 16 December 2015 and 30 December 2015.

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

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Present value of unfunded defined benefit obligations | **7,501** | 6,213 |
| Analysed as: | | |
| Non-current | **7,501** | 6,213 |
| Actuarial (loss)/gain recognised in the statements of comprehensive income | **(201)** | 201 |
| Cumulative actuarial losses recognised in the statements of comprehensive income | **(349)** | (148) |

## 31 PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

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

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| At 1 January | **6,213** | 4,789 |
| Acquisition of a subsidiary (Note 14) | **-** | 789 |
| Charged to income statement (Note 8) | **1,214** | 965 |
| Contributions paid during the financial year | **(435)** | (386) |
| Recognition of actuarial loss/(gain) | **201** | (201) |
| Foreign exchange adjustments | **308** | 257 |
| At 31 December | **7,501** | 6,213 |

The amounts recognised in the income statements are as follows:

| | | |
|---|---|---|
| Current service cost | **680** | 542 |
| Interest cost | **534** | 423 |
| Total, included in employee benefit expenses (Note 8) | **1,214** | 965 |

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

| | Group | |
|---|---|---|
| | 2015 % | 2014 % |
| Discount rate | **9.0** | 8.5 |
| Expected rate of salary increase | **7.0** | 7.0 |

## 32 AMOUNTS DUE FROM CUSTOMERS ON CONTRACTS

| | Note | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| Aggregate costs incurred to-date | | **6,712** | 10,744 |
| Add: Attributable profits | | **2,832** | 4,427 |
| | | **9,544** | 15,171 |
| Less: Progress billings | | **(9,177)** | (14,044) |
| Amounts due from customers on contracts | 18 | **367** | 1,127 |
| Contract revenue recognised during the financial year | 4 | **68,973** | 58,187 |
| Contract costs recognised as expense during the financial year | 5 | **68,615** | 57,887 |

Included in contract costs incurred during the financial year is interest expense of RM6,546,000 (2014:Nil).

## 33 SEGMENTAL REPORTING

The Board of Directors is the Group's chief operating decision maker. Performance is measured based on identified two 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 two 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 and Indonesia. These two regions have been aggregated into one reportable segment as they have similar nature of business in terms of business processes.

(b) Manufacturing - Manufacturing of pharmaceutical products in Malaysia and Indonesia. These two regions have been aggregated into one reportable segment as they have similar nature of business in terms of business processes.

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.

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments

| | Logistics and distribution RM'000 | Manufacturing RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| 2015 | | | | |
| **Revenue** | | | | |
| External sales | 2,167,906 | 21,406 | - | 2,189,312 |
| Inter-segment sales | 7,460 | 361,728 | (369,188) | - |
| Total revenue | 2,175,366 | 383,134 | (369,188) | 2,189,312 |
| **Results** | | | | |
| Segment results | 24,326 | 111,564 | (9,072) | 126,818 |
| Finance costs | (15,152) | (2,249) | 2,255 | (15,146) |
| Interest income | 3,119 | 186 | (2,255) | 1,050 |
| Profit before zakat and taxation | 12,293 | 109,501 | (9,072) | 112,722 |
| Zakat | | | | (700) |
| Taxation | | | | (27,438) |
| Net profit for the financial year | | | | 84,584 |

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| | Logistics and distribution RM'000 | Manufacturing RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| 2015 | | | | |
| **Other information** | | | | |
| Segment assets | 1,889,924 | 663,397 | (1,057,698) | 1,495,623 |
| Segment liabilities | 1,388,934 | 372,105 | (825,410) | 935,629 |
| Capital expenditure on property, plant and equipment and intangible assets | 107,113 | 25,392 | - | 132,505 |
| Depreciation of property, plant and equipment | 9,409 | 18,570 | - | 27,979 |
| Amortisation of prepaid lease payments | 51 | 77 | - | 128 |
| Amortisation of intangible assets | 26,922 | 2,008 | - | 28,930 |
| Non-cash expenses other than depreciation and amortisation | (422) | 6,180 | - | 5,758 |

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| | Logistics and distribution RM'000 | Manufacturing RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| 2014 | | | | |
| **Revenue** | | | | |
| External sales | 2,103,832 | 19,101 | – | 2,122,933 |
| Inter-segment sales | 5,249 | 351,036 | (356,285) | – |
| Total revenue | 2,109,081 | 370,137 | (356,285) | 2,122,933 |
| **Results** | | | | |
| Segment results | 53,775 | 95,461 | (8,179) | 141,057 |
| Finance costs | (16,615) | (1,774) | 1,621 | (16,768) |
| Interest income | 2,895 | 17 | (1,621) | 1,291 |
| Profit before taxation | 40,055 | 93,704 | (8,179) | 125,580 |
| Taxation | | | | (31,355) |
| Net profit for the financial year | | | | 94,225 |

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| | Logistics and distribution RM'000 | Manufacturing RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| 2014 | | | | |
| **Other information** | | | | |
| Segment assets | 1,638,258 | 592,667 | (988,205) | 1,242,720 |
| Segment liabilities | 1,122,351 | 324,055 | (755,721) | 690,685 |
| Capital expenditure on property, plant and equipment and intangible assets | 68,124 | 22,789 | – | 90,913 |
| Depreciation of property, plant and equipment | 7,746 | 23,896 | – | 31,642 |
| Amortisation of prepaid lease payments | 51 | – | – | 51 |
| Amortisation of intangible assets | 13,919 | 4,112 | – | 18,031 |
| Non-cash expenses other than depreciation and amortisation | 16,137 | 5,728 | (2,528) | 19,337 |

## 33 SEGMENTAL REPORTING (CONTINUED)

(b) Geographical information

| | Revenue from external customers RM'000 | Total non-current assets RM'000 |
|---|---|---|
| Geographical markets | | |
| 2015 | | |
| Malaysia | 1,666,344 | 673,583 |
| Indonesia | 510,401 | 19,337 |
| Other countries | 12,567 | – |
| | 2,189,312 | 692,920 |
| 2014 | | |
| Malaysia | 1,690,955 | 567,239 |
| Indonesia | 421,045 | 38,090 |
| Other countries | 10,933 | – |
| | 2,122,933 | 605,329 |

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 (2014: RM1.6 billion) are 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).

## 34 CAPITAL COMMITMENTS

Capital expenditure in respect of the following has not been provided for in the financial statements:

| | Group | |
|---|---|---|
| | **2015 RM'000** | **2014 RM'000** |
| Authorised and contracted for: | | |
| - acquisition of property, plant and equipment | **36,184** | 19,642 |
| - acquisition of intangible assets | **752** | 4,230 |
| Authorised but not contracted for: | | |
| - acquisition of property, plant and equipment | **11,751** | 12,153 |
| - acquisition of a subsidiary | **3,500** | – |

## 35 CONTINGENT LIABILITIES – UNSECURED

(a) There is a claim by E*HealthLine.com Inc. ("EHL") against Modern Industrial Investment Holding Group Company Ltd ("Modern") and Pharmaniaga Berhad ("Pharmaniaga") relating to a non-binding Memorandum of Collaboration ("MOC") which has lapsed.

EHL's claims are contested by Modern and Pharmaniaga (collectively known as "Parties") because subsequent to the expiry of the MOC, neither Parties have entered into any agreement and/or arrangement with EHL.

(b) The amounts of performance bonds and bank guarantees (unsecured) issued by the Group to third parties are as follows:

| | Group | |
|---|---|---|
| | **2015 RM'000** | **2014 RM'000** |
| Bank performance and reimbursement bonds for concession business undertaken by a subsidiary | **45,000** | 45,000 |
| Bank guarantees for projects and utilities undertaken by subsidiaries | **44,059** | 33,904 |

## 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 to 5 years with renewal option included in the contracts.

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Within 1 year | **3,920** | 4,828 |
| Later than 1 year but not later than 5 years | **2,147** | 1,986 |
| | **6,067** | 6,814 |

## 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 | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| (a) Immediate holding company | | | | |
| • Management fees | **301** | 330 | **168** | 132 |
| • Corporate and administrative support services | **1,297** | 775 | **–** | – |

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| (b) Subsidiaries of the immediate holding company | | |
| • Travelling and accommodation | **1,893** | 3,615 |
| • Rental of warehousing facilities | **908** | 1,092 |
| • Provision of warehousing services | **1,739** | 1,867 |
| • Acquisition of a warehouse | **23,320** | – |
| • Freight forwarding and transportation services | **2,804** | 547 |

## 37 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

| | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|
| (c) Subsidiaries | | |
| • Interest income on advances to a subsidiary | **400** | 1,621 |
| • Dividend income from subsidiaries | **65,000** | 85,000 |
| • Management fees charged to subsidiaries | **6,781** | 6,083 |
| (d) Payment of expenses made on behalf: | | |
| • by subsidiaries | **3,232** | 5,079 |
| • for subsidiaries | **(9,494)** | (21,833) |

(e) Remuneration of key management personnel

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Salaries, bonuses and allowances | **6,988** | 6,759 | **1,735** | 1,799 |
| Social contribution cost | **5** | 4 | **1** | 1 |
| Defined contribution plan | **888** | 862 | **209** | 216 |
| Estimated monetary value of benefits by way of usage of Group assets | **265** | 187 | **52** | 38 |
| Fee | **228** | 199 | **–** | – |
| Others | **54** | 85 | **14** | 28 |
| | **8,428** | 8,096 | **2,011** | 2,082 |

Key management personnel comprise the Managing Director and management personnel of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group entities directly or indirectly.

(f) Government-related entities

The Government of Malaysia and bodies controlled or jointly controlled by the Government of Malaysia are related parties of the Group by virtue of LTAT being a body controlled by the Government of Malaysia.

On 16 March 2011, Pharmaniaga Logistics Sdn. Bhd. ("PLSB"), a wholly-owned subsidiary has entered into a Concession Agreement with the Government of Malaysia represented by the Ministry of Health, Malaysia ("MOH") for a period of ten (10) years expiring on 30 November 2019, for the right and authority to purchase, store, supply and distribute the Approved Products (i.e. drugs and non-drugs approved by MOH) to the Public Sector Customers (i.e. government hospital, health office, health clinic, dental clinic, or any health institution or other similar facility within Malaysia which is operated and controlled by the MOH and as determined by the MOH from time to time) and also for the development of Pharmacy Information System and Clinic Pharmacy Systems in government hospitals and clinics.

## 37 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Government-related entities (continued)

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Sale of goods to MOH | **1,589,344** | 1,618,314 |
| Amount due from MOH | **5,018** | 17,137 |

(g) Significant outstanding balances

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Amounts due from | | | | |
| Subsidiaries | **-** | – | **171,394** | 179,117 |
| Amounts due to | | | | |
| Immediate holding company | **186** | 227 | **8** | 44 |
| Subsidiaries | **-** | – | **215,020** | 205,679 |
| Related companies | **1,396** | 1,192 | **-** | – |

Outstanding balances with the above related parties arose from normal trade transactions during the financial year.

## 38 SIGNIFICANT AND SUBSEQUENT EVENTS

(i) Significant events of the Group during the financial year are as follows:

(a) On 20 May 2013, the Company signed a Joint Venture Agreement with Modern Healthcare Solutions Company Limited to form and operate a joint venture limited liability company ("JV Company") in the Kingdom of Saudi Arabia. Upon the fulfilment of conditions precedent, the JV Company will be incorporated with each Party having a 50% equity interest in share capital of the JV Company.

On 16 May 2015, the validity of the JV Agreement has lapsed and there is no intention to proceed with the joint venture arrangement.

## 38 SIGNIFICANT AND SUBSEQUENT EVENTS (CONTINUED)

(i) Significant events of the Group during the financial year are as follows: (continued)

(b) Pharmaniaga Logistics Sdn. Bhd. ("PLSB"), a wholly-owned subsidiary entered into Supply Agreement with the following three (3) teaching hospitals:

(i) Supply Agreement dated 13 February 2015 was entered into between PLSB and Universiti Sains Malaysia ("USM") for the services of purchasing, storing, supplying and delivering to USM drugs and non-drugs as approved by USM ("Approved Products") and as specified therein. The Supply Agreement shall commence from 13 February 2015 and expire on 30 November 2019 ("Contract Period");

(ii) Supply Agreement dated 10 March 2015 was entered into between PLSB and Universiti Kebangsaan Malaysia ("UKM") for the services of purchasing, storing, supplying and delivering to UKM drugs and non-drugs as approved by UKM ("Approved Products") and as specified therein. The Supply Agreement shall commence from 10 March 2015 and expire on 30 November 2019 ("Contract Period"); and

(iii) Supply Agreement dated 12 March 2015 was entered into between PLSB and University Malaya ("UM") for the services of purchasing, storing, supplying and delivering to UM drugs and non-drugs as approved by UM ("Approved Products") and as specified therein. The Supply Agreement shall commence from 12 March 2015 and expire on 30 November 2019 ("Contract Period").

The value of the Approved Products to be supplied to the respective University i.e. USM, UKM and UM is not stipulated in the Supply Agreements and is dependent on the actual volume, the agreed unit price of the Approved Products and scope of services rendered respectively thereto from time-to-time throughout the respective Contract Period.

(c) On 10 June 2015, Pharmaniaga Logistics Sdn. Bhd. and Boustead Curve Sdn. Bhd., a subsidiary of immediate holding company entered into a Sale and Purchase Agreement to purchase a warehouse and the office erected thereon at Seksyen 15 Shah Alam for a total cash consideration of RM23,320,000. The acquisition was completed on 9 September 2015.

(d) On 28 August 2015, the Company and Dato' Dr Kattayat Mohandas A/L C P Narayana, the registered shareholder of Bio-Collagen Technologies Sdn Bhd ("BCTSB") entered into a conditional Share and Purchase Agreement ("SPA") to acquire the existing 1,400,000 ordinary shares of RM1.00 each in BCTSB representing 70% of the total issued and paid-up share capital of BCTSB for a total cash consideration of RM3,500,000 only.

The Company and BCTSB will need to fulfill a list of Conditions Precedent ("CP") as provided in the SPA thereto within the three (3) months from the date of the SPA i.e. 27 November 2015 ("Initial Cut-Off Date"). The Initial Cut-Off Date has been extended to 18 January 2016 ("the Extended Cut-Off Date") upon the Vendor's request due to the complexity and lengthy processes in complying with the CP. On 14 January 2016, the Parties have mutually agreed to extend the Extended Cut-Off Date for another 60 days, to 17 March 2016 ("2$^{nd}$ Extended Cut-Off Date").

## 38 SIGNIFICANT AND SUBSEQUENT EVENTS (CONTINUED)

(ii) Subsequent event of the Group during the financial year is as follow:

On 13 January 2016, the Company announced the Proposed Establishment of a Share Issuance Scheme for the Eligible Employees of Pharmaniaga Berhad and its subsidiaries ("Pharmaniaga Group") and Directors of the Company (excluding any Directors of Pharmaniaga's subsidiaries) (collectively known as "Eligible Persons") ("Proposed Scheme"). Under the Proposed Scheme, the Company can issue up to 15% of the issued and paid-up ordinary share capital of Pharmaniaga (excluding treasury shares) at any time during the duration of the Proposed Scheme for the Eligible Persons who fulfil the eligibility criteria set out in Proposed Scheme.

The Proposed Scheme serves to attract, retain, motivate and reward valuable employees of Pharmaniaga Group and Directors of the Company through the award of ordinary shares of RM0.50 each in Pharmaniaga Berhad ("Pharmaniaga Shares") or the rights to subscribe for Pharmaniaga Shares as determined by a committee to be established to administer the Proposed Scheme ("Scheme Committee") in accordance to the by-laws governing the Proposed Scheme.

The Proposed Scheme is subject to the following approvals being obtained:

(i) the approval of Bursa Securities Malaysia Berhad, for the listing of and quotation for the new Pharmaniaga Shares to be issued pursuant to the Proposed Scheme;

(ii) the approval of the shareholders of the Company, at the extraordinary general meeting to be convened; and

(iii) the approval of any other relevant authorities, if required.

## 39 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group has a written risk management framework which sets out their overall business strategies, their tolerance to risk and has established processes to monitor and control the risks. Such framework is approved by the Board of Directors and quarterly reviews are undertaken as required.

Financial risk factors

(a) Market risk

(i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign currency exchange risk arises from current commercial transactions, recognised assets and liabilities.

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

To manage the foreign exchange risk causing from future commercial transactions and recognised assets and liabilities, the Group enters into contracts in Ringgit Malaysia denomination, where possible. Foreign currency exchange risk arises when current commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2015, if the functional currency had weakened/strengthened by 5% against US Dollar with all other variables held constant, post tax profit for the financial year would have been RM127,000 (2014: RM242,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of US Dollar - denominated trade payables, other payables, trade receivables and deposits, cash and bank balances.

As at 31 December 2015, if the functional currency had weakened/strengthened by 5% against Euro with all other variables held constant, post tax profit for the financial year would have been RM94,000 (2014: RM21,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of Euro - denominated trade and other payables.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2015, if the functional currency had weakened/strengthened by 5% against the IDR with all other variables held constant, the impact on equity would have been approximately RM1,733,000 (2014: RM1,635,000) higher/lower 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:

| | 31.12.2015 | |
|---|---|---|
| | US Dollar RM'000 | Euro RM'000 |
| Trade receivables | **3,359** | **-** |
| Deposits, cash and bank balances | **7** | **-** |
| Trade payables | **(5,856)** | **(605)** |
| Other payables | **(52)** | **(1,277)** |
| | **(2,542)** | **(1,882)** |

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

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

| | 31.12.2014 US Dollar RM'000 | 31.12.2014 Euro RM'000 |
|---|---|---|
| Trade receivables | 3,233 | – |
| Deposits, cash and bank balances | 13 | – |
| Trade payables | (8,086) | (64) |
| Other payables | (4) | (357) |
| | (4,844) | (421) |

(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 2015, if interest rates on Ringgit Malaysia - denominated borrowings of the Group and the Company had been 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 RM1,070,000 (2014: RM1,399,000) and RM347,000 (2014: RM477,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

As at 31 December 2015, if interest rates on Indonesian Rupiah - denominated borrowings of the Group had been 50 basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group would have been RM307,000 (2014: RM122,000) higher/lower respectively, mainly as a result of lower/higher interest expense on floating rate borrowings.

The assumed movement in basis points for interest rate sensitivity analysis is based on a prudent estimate of the current market environment.

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from credit exposures to customers, including outstanding receivables, as well as deposits, cash and bank balances.

For trade and other receivables, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. See Notes 18 and 19 for further disclosure on credit risk.

Credit quality of financial assets

Information regarding credit quality of trade and other receivables is disclosed in Notes 18 and 19 respectively. Deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's and the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times. Such forecasting takes into consideration the Group's and the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group and the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and will not reconcile to the amounts disclosed on the statements of financial position.

| | Less than 3 months RM'000 | Between 3 months and 1 year RM'000 | Between 1 and 2 years RM'000 | More than 2 years RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 31 December 2015 | | | | |
| **Financial assets** | | | | |
| Trade receivables | **146,677** | **984** | **986** | **10,055** |
| Other receivables | **7,670** | **-** | **-** | **-** |
| Deposits, cash and bank balances | **22,518** | **-** | **-** | **-** |
| **Financial liabilities** | | | | |
| Loans and borrowings | **403,237** | **664** | **437** | **129** |
| Trade payables | **435,915** | **-** | **-** | **-** |
| Other payables | **51,193** | **-** | **-** | **-** |
| Amount due to immediate holding company | **186** | **-** | **-** | **-** |
| Amounts due to related companies | **1,396** | **-** | **-** | **-** |
| At 31 December 2014 | | | | |
| **Financial assets** | | | | |
| Trade receivables | 115,808 | 1,194 | 3,756 | 8,376 |
| Other receivables | 6,343 | - | - | - |
| Deposits, cash and bank balances | 31,982 | - | - | - |
| **Financial liabilities** | | | | |
| Loans and borrowings | 201,570 | 485 | 997 | 162 |
| Trade payables | 396,459 | - | - | - |
| Other payables | 50,903 | - | - | - |
| Amount due to immediate holding company | 227 | - | - | - |
| Amounts due to related companies | 1,192 | - | - | - |

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

| | Less than 3 months RM'000 | Between 3 months and 1 year RM'000 | Between 1 and 2 years RM'000 | More than 2 years RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| At 31 December 2015 | | | | |
| **Financial assets** | | | | |
| Other receivables | **79** | **-** | **-** | **-** |
| Deposits, cash and bank balances | **189** | **-** | **-** | **-** |
| Amounts due from subsidiaries | **205,003** | **-** | **-** | **-** |
| **Financial liabilities** | | | | |
| Loans and borrowings | **80,335** | **-** | **-** | **-** |
| Other payables | **3,865** | **-** | **-** | **-** |
| Amount due to immediate holding company | **8** | **-** | **-** | **-** |
| Amounts due to subsidiaries | **215,020** | **-** | **-** | **-** |
| At 31 December 2014 | | | | |
| **Financial assets** | | | | |
| Other receivables | 66 | - | - | - |
| Deposits, cash and bank balances | 562 | - | - | - |
| Amounts due from subsidiaries | 219,803 | - | - | - |
| **Financial liabilities** | | | | |
| Loans and borrowings | 65,236 | - | - | - |
| Other payables | 2,856 | - | - | - |
| Amount due to immediate holding company | 44 | - | - | - |
| Amounts due to subsidiaries | 205,679 | - | - | - |

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(d) Financial instruments by category

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| Trade receivables | **157,248** | 127,607 | **–** | – |
| Other receivables | **7,670** | 6,343 | **79** | 66 |
| Deposits, cash and bank balances | **22,518** | 31,982 | **189** | 562 |
| Amounts due from subsidiaries | **–** | – | **171,394** | 179,117 |
| **Financial liabilities** | | | | |
| Liabilities at amortised cost | | | | |
| Loans and borrowings | **400,171** | 201,140 | **80,000** | 65,000 |
| Trade payables | **435,915** | 396,459 | **–** | – |
| Other payables | **51,193** | 50,903 | **3,865** | 2,856 |
| Amount due to immediate holding company | **186** | 227 | **8** | 44 |
| Amounts due to related companies | **1,396** | 1,192 | **–** | – |
| Amounts due to subsidiaries | **–** | – | **215,020** | 205,679 |

## 39 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total loans and borrowings divided by total capital.

The gearing ratios are as follows:

| | Group | |
|---|---|---|
| | **2015 RM'000** | **2014 RM'000** |
| Total loans and borrowings (Note 27) | **400,171** | 201,140 |
| Total equity attributable to equity holders of the Company | **529,409** | 526,512 |
| Gearing ratio (times) | **0.8** | 0.4 |

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 net 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 2; and
- The ratio of Debt Service Coverage is to be a minimum of 1.25.

Included within bankers' acceptances (unsecured) of the Group (Note 27) is RM4.3 million in respect of borrowings drawndown 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 2015, 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 2015.

Other than the above, there is no non-compliance of financial covenants for borrowings of the Group and of the Company during the financial year.

Fair value estimation

The carrying values of financial assets and financial liabilities of the Group and of the Company at the reporting date approximated their fair values.

## 40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 25 February 2016.

## 41 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the context of disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

| | Group | | Company | |
|---|---|---|---|---|
| | 2015<br>RM'000 | 2014<br>RM'000 | 2015<br>RM'000 | 2014<br>RM'000 |
| Total retained profits of the Company and its subsidiaries: | | | | |
| - realised profits | **411,380** | 405,063 | **164,672** | 203,239 |
| - unrealised losses | **(14,549)** | (8,819) | **-** | - |
| | **396,831** | 396,244 | **164,672** | 203,239 |
| Less: Consolidation adjustments | **(16,456)** | (9,194) | **-** | - |
| Total retained profits | **380,375** | 387,050 | **164,672** | 203,239 |

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

# ADDITIONAL DISCLOSURES

1. **UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS**
   There were no proceeds received during the current financial year.

2. **SHARE BUY BACKS DURING THE FINANCIAL YEAR**
   The Company did not carry out any share buy back exercises during the financial year ended 31 December 2015.

3. **OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES EXERCISED**
   The Company did not issue any warrants or convertible securities for the financial year ended 31 December 2015.

4. **AMERICAN DEPOSITORY RECEIPTS (ADR)/GLOBAL DEPOSITORY RECEIPT (GDR)**
   The Company has not sponsored any ADR/GDR programme during the financial year ended 31 December 2015.

# ANALYSIS OF SHAREHOLDINGS

As at 15 February 2016

### SHARE CAPITAL

| | | |
|---|---|---|
| Authorised Share Capital | : | RM300,000,000.00 divided into 600,000,000 ordinary shares of RM0.50 each |
| Issued and Paid-up Share Capital | : | RM129,441,366.00 divided into 258,882,732 ordinary shares of RM0.50 each |
| Class of Shares | : | Ordinary shares of RM0.50 each |
| Voting Rights | : | One vote per ordinary share held |

### DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares Held | % of Issued Share Capital |
|---|---|---|---|---|
| Less than 100 | 738 | 13.39 | 17,255 | 0.01 |
| 100 to 1,000 | 2,163 | 39.26 | 974,329 | 0.37 |
| 1,001 to 10,000 | 2,067 | 37.51 | 7,060,354 | 2.73 |
| 10,001 to 100,000 | 425 | 7.71 | 11,489,760 | 4.44 |
| 100,001 to less than 5% of Issued Shares | 115 | 2.09 | 80,212,035 | 30.98 |
| 5% and above of Issued Shares | 2 | 0.04 | 159,128,999 | 61.47 |
| TOTAL | 5,510 | 100.00 | 258,882,732 | 100.00 |

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

| No. | Name of Shareholders | No. of Shares Held | % of Issued Share Capital |
|---|---|---|---|
| 1 | Boustead Holdings Berhad<br>*Account Non-Trading* | 146,110,415 | 56.44 |
| 2 | Lembaga Tabung Angkatan Tentera | 13,018,584 | 5.03 |
| 3 | Che Lodin bin Wok Kamaruddin | 9,382,837 | 3.62 |
| 4 | Kumpulan Wang Persaraan (Diperbadankan) | 5,819,700 | 2.25 |
| 5 | Citigroup Nominees (Asing) Sdn Bhd<br>*Exempt an for Citibank New York (Norges Bank 14)* | 3,111,000 | 1.20 |
| 6 | Scotia Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Che Lodin bin Wok Kamaruddin* | 3,082,428 | 1.19 |
| 7 | CIMB Group Nominees (Tempatan) Sdn Bhd<br>*Yayasan Hasanah (AUR-VCAM)* | 3,010,200 | 1.16 |
| 8 | HSBC Nominees (Asing) Sdn Bhd<br>*TNTC for Asia Discovery Emerging Companies Master Fund PTE. LTD* | 2,662,400 | 1.03 |

## ANALYSIS OF SHAREHOLDINGS

| No. | Name of Shareholders | No. of Shares Held | % of Issued Share Capital |
|---|---|---|---|
| 9 | HSBC Nominees (Asing) Sdn Bhd<br>*Exempt an for Skandinaviska Enskilda Banken AB (Swedish Clients)* | 2,593,500 | 1.00 |
| 10 | Maybank Nominees (Tempatan) Sdn Bhd<br>*Maybank Trustee Berhad for Saham Amanah Sabah (Acc2-940410)* | 2,500,000 | 0.97 |
| 11 | Dasar Technologies Sdn Bhd | 2,200,000 | 0.85 |
| 12 | HSBC Nominees (Tempatan) Sdn Bhd<br>*HSBC (M) Trustee Bhd for Affin Hwang Select Opportunity Fund (3969)* | 2,150,000 | 0.83 |
| 13 | Amanahraya Trustees Berhad<br>*Public Islamic Treasures Growth Fund* | 1,774,700 | 0.69 |
| 14 | Maybank Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Au Kwan Seng* | 1,754,100 | 0.68 |
| 15 | Amanahraya Trustees Berhad<br>*Affin Hwang Growth Fund* | 1,439,080 | 0.56 |
| 16 | HSBC Nominees (Tempatan) Sdn Bhd<br>*HSBC (M) Trustee Bhd for Affin Hwang Select Income Fund (4850)* | 1,300,000 | 0.50 |
| 17 | Citigroup Nominees (Tempatan) Sdn Bhd<br>*Kumpulan Wang Persaraan (Diperbadankan)(I-VCAP)* | 1,239,900 | 0.48 |
| 18 | Amanahraya Trustees Berhad<br>*Affin Hwang Principled Growth Fund* | 1,128,500 | 0.44 |
| 19 | Amanahraya Trustees Berhad<br>*Public Islamic Opportunities Fund* | 1,053,600 | 0.41 |
| 20 | HSBC Nominees (Tempatan) Sdn Bhd<br>*HSBC (M) Trustee Bhd for CIMB Islamic Dali Equity Theme Fund* | 1,052,000 | 0.41 |
| 21 | Citigroup Nominees (Tempatan) Sdn Bhd<br>*Employees Provident Fund Board* | 1,002,800 | 0.39 |
| 22 | Citigroup Nominees (Tempatan) Sdn Bhd<br>*Kumpulan Wang Persaraan (Diperbadankan) (Vcam Equity FD)* | 1,000,000 | 0.39 |
| 23 | HSBC Nominees (Tempatan) Sdn Bhd<br>*HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (CIMB-P 6939-404)* | 958,300 | 0.37 |
| 24 | Citigroup Nominees (Tempatan) Sdn Bhd<br>*Universal Trustee (Malaysia) Berhad for CIMB Principal Equity Fund* | 949,300 | 0.37 |
| 25 | Chinchoo Investment Sdn. Berhad | 913,149 | 0.35 |
| 26 | Citigroup Nominees (Tempatan) Sdn Bhd<br>*Universal Trustee (Malaysia) Berhad for CIMB Principal Equity Fund* | 844,400 | 0.33 |
| 27 | Amanahraya Trustees Berhad<br>*Public Strategic Smallcap Fund* | 828,100 | 0.32 |
| 28 | Yong Siew Yoon | 811,364 | 0.31 |
| 29 | HSBC Nominees (Asing) Sdn Bhd<br>*HSBC (M) Trustee Bhd for Affin Hwang Aiiman Growth Fund (4207)* | 790,000 | 0.31 |
| 30 | CIMB Group Nominees (Tempatan) Sdn Bhd<br>*CIMB Islamic Trustee Berhad for Affin Hwang Select Dividend Fund* | 715,400 | 0.28 |
| | **TOTAL** | **215,195,757** | **83.12** |

**SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)**

| | | No. of Shares Held | | | |
|---|---|---|---|---|---|
| **No.** | **Name of Substantial Shareholders** | **Direct** | **%** | **Indirect** | **%** |
| 1 | Boustead Holdings Berhad (BHB) | 146,110,415 | 56.44 | – | – |
| 2 | Lembaga Tabung Angkatan Tentera | 13,018,584 | 5.03 | 146,110,415[1] | 56.44 |

[1] Deemed interested by virtue of its shareholding in BHB pursuant to Section 6A of the Companies Act

**DIRECTORS' SHAREHOLDINGS (as per the Register of Directors' Shareholdings)**

| | | No. of Shares Held in Pharmaniaga Berhad | | | |
|---|---|---|---|---|---|
| **No.** | **Name of Directors** | **Direct** | **%** | **Indirect** | **%** |
| 1 | Che Lodin bin Wok Kamaruddin | 9,382,837 | 3.62 | – | – |
| 2 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>*CIMB Bank for Che Lodin bin Wok Kamaruddin (PBCL-0G0052)* | 34,883 | 0.01 | – | – |
| 3 | SCOTIA Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Che Lodin bin Wok Kamaruddin* | 3,082,428 | 1.19 | – | – |
| 4 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>*CIMB Bank for Ebinesan @ Daniel a/l Gnanakkan (PBCL-0G0048)* | 400,000 | 0.15 | – | – |
| 5 | Farshila binti Emran | 87,000 | 0.03 | – | – |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area of Building/ Land (sq meters) | Tenure and Year of Expiry | Age of Building/ Land (Years) | Net Book Value as at 31/12/2015 (RM'000) | Date of Revaluation/ Acquisition |
|---|---|---|---|---|---|---|---|
| 1. | Lot PT 46016, HS (D) 87359<br>Mukim of Kapar, Klang,<br>Selangor Darul Ehsan<br><br>**Industrial Premises:**<br>No. 7, Lorong Keluli 1B,<br>Kawasan Perindustrian<br>Bukit Raja Selatan,<br>Seksyen 7,<br>40000 Shah Alam,<br>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 | 21 | 26,070 | 14 March 2005 |
| 2. | Lot PT 46016, HS (D) 87359<br>Mukim of Kapar, Klang,<br>Selangor Darul Ehsan<br><br>**Industrial Premises:**<br>No. 7, Lorong Keluli 1B,<br>Kawasan Perindustrian<br>Bukit Raja Selatan,<br>Seksyen 7,<br>40000 Shah Alam,<br>Selangor Darul Ehsan | A parcel of industrial land with a single storey laboratory building, chiller and a guard house | 17,414 | Freehold | 18 | 14,411 | 14 March 2005 |
| 3. | HS (D) 145264, PT 70920,<br>Mukim of Kapar, Klang,<br>Selangor Darul Ehsan<br><br>**Shoplot:**<br>No. 25, Jalan Keluli 7/109,<br>Kawasan Perindustrian<br>Bukit Raja Selatan,<br>Seksyen 7,<br>40000 Shah Alam,<br>Selangor Darul Ehsan | 3-storey shoplot | 277 | Freehold | 1 | 3,499 | 3 October 2014 |

| No. | Location and address of property | Brief description and existing use | Area of Building/ Land (sq meters) | Tenure and Year of Expiry | Age of Building/ Land (Years) | Net Book Value as at 31/12/2015 (RM'000) | Date of Revaluation/ Acquisition |
|---|---|---|---|---|---|---|---|
| 4. | HS (D) 145263, PT 70919, Mukim of Kapar, Klang, Selangor Darul Ehsan<br><br>**Shoplot:**<br>No. 23, Jalan Keluli 7/109, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan | 3-storey shoplot | 183 | Freehold | 1 | 2,028 | 3 October 2014 |
| 5. | HS (D) 22385 PT49, Seksyen 15, Bandar Shah Alam, Daerah Petaling, Selangor Darul Ehsan<br><br>**Industrial Premises:**<br>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 | 0 | 22,536 | 9 September 2015 |
| 6. | Geran 44309 of Lot 7, Mukim Pekan Puchong Perdana, Daerah Petaling, Selangor Darul Ehsan<br><br>**Factory:**<br>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 | 15 | 57,475 | 21 August 2001 |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area of Building/ Land (sq meters) | Tenure and Year of Expiry | Age of Building/ Land (Years) | Net Book Value as at 31/12/2015 (RM'000) | Date of Revaluation/ Acquisition |
|---|---|---|---|---|---|---|---|
| 7. | Lot PT 1157, HS (M) 9726, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan<br><br>**Factory:**<br>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 | 30 | 16,102 | 28 August 1991 |
| 8. | Lot 1024, Block 7, Muara Tebas Land, District of Kuching, Sarawak<br><br>**Industrial Premises:**<br>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 | 19 | 6,440 | 3 November 2004 |
| 9. | Country Lease 015377554, Kota Kinabalu, Sabah<br><br>**Industrial Premises:**<br>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 | 13 | 3,461 | 21 January 2002 |
| 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<br><br>**Industrial Premises:**<br>No. 1, 3 & 5, Lorong IKS Juru 8, Taman Perindustrian Ringan Juru, 14100 Simpang Ampat, Seberang Perai, Pulau Pinang | 3 contiguous 1 1/2 semi-detached warehouses with office | 2,175 | Freehold | 18 | 1,049 | 11 November 1998 |

| No. | Location and address of property | Brief description and existing use | Area of Building/ Land (sq meters) | Tenure and Year of Expiry | Age of Building/ Land (Years) | Net Book Value as at 31/12/2015 (RM'000) | Date of Revaluation/ Acquisition |
|---|---|---|---|---|---|---|---|
| 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 | 22 | *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 | 22 | *0 | 11 June 1993 |
| 13. | Lot PT 10908, HS (M) 9124, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan<br><br>**House:**<br>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 | 29 | *0 | 4 September 1987 |
| 14. | Lot PR 10911, HS (M) 9127, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan<br><br>**House:**<br>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 | 29 | *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<br><br>**Factory:**<br>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 | 38 | 14,900 | 6 March 2005 |

** Below RM500*

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area of Building/ Land (sq meters) | Tenure and Year of Expiry | Age of Building/ Land (Years) | Net Book Value as at 31/12/2015 (RM'000) | Date of Revaluation/ Acquisition |
|---|---|---|---|---|---|---|---|
| 16. | Lot 276, 277 & 278, District of Mukim of Bandar Seri Iskandar, Perak Tengah, Perak Darul Ridzuan<br><br>**Factory :**<br>Lot 120,<br>Taman Farmaseutikal,<br>32610 Bandar Seri Iskandar,<br>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 Mac 2100 | 19 | 29,067 | 1 June 2009 |
| 17. | Blok D, 20 & 21, Ruko Grand Mal, Bekasi, Jakarta, Indonesia | Shop lots | 453 | Freehold 15 years to 24 September 2013 (in progress for renewal) | 13 | 107 | 13 October 2003 |
| 18. | Jalan Depsos, 67 – 70 Bintaro, Jaksel, Jakarta, Indonesia | Office and warehouse | 1,860 | Freehold 30 years to 7 July 2028 | 16 | 887 | 14 January 1999 Revaluation 2001 |
| 19. | Jalan Kalibokor Selatan, 152 Surabaya, Indonesia | Office and warehouse | 1,133 | Leasehold 5 years to 24 July 2016 | 34 | 55 | 4 November 1971 Revaluation 2001 |
| 20. | 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 1 October 2043 | 31 | 9,281 | 8 May 1994 |

# GROUP CORPORATE DIRECTORY

| List of Companies | Address |
|---|---|
| **Pharmaniaga Berhad**<br>**Pharmaniaga Logistics Sdn Bhd**<br>**Pharmaniaga Marketing Sdn Bhd**<br>**Pharmaniaga Research Centre Sdn Bhd**<br>**Pharmaniaga Pristine Sdn Bhd**<br>**Pharmaniaga Biomedical Sdn Bhd**<br>**Pharmaniaga International Corporation Sdn Bhd**<br>**Pharmaniaga Biovention Sdn Bhd**<br>**Insurgress Sdn Bhd** | No. 7, Lorong Keluli 1B,<br>Kawasan Perindustrian<br>Bukit Raja Selatan,<br>Seksyen 7,<br>40000 Shah Alam,<br>Selangor Darul Ehsan<br>Tel : +603-3342 9999<br>Fax : +603-3341 7777<br><br>**Mailing Address:**<br>P.O. Box 2030,<br>Pusat Bisnes Bukit Raja,<br>40800 Shah Alam,<br>Selangor Darul Ehsan |
| **Pharmaniaga Manufacturing Berhad** | No. 11A, Jalan P/1,<br>Kawasan Perusahaan Bangi,<br>43650 Bandar Baru Bangi,<br>Selangor Darul Ehsan<br>Tel : +603-8925 7880<br>Fax : +603-8925 6177 |
| **Idaman Pharma Manufacturing Sdn Bhd**<br>(Sungai Petani Plant) | Lot 24 & 25, Jalan Perusahaan 8,<br>Bakar Arang Industrial Estate,<br>08000 Sungai Petani,<br>Kedah Darul Aman<br>Tel : +604-4213 011<br>Fax : +604-4215 731 |
| **Idaman Pharma Manufacturing Sdn Bhd**<br>(Seri Iskandar Plant) | Lot 120, Taman Farmaseutikal,<br>32610 Bandar Seri Iskandar,<br>Perak Darul Ridzuan<br>Tel : +605-3712 020<br>Fax : +605-3711 940/950 |
| **Pharmaniaga LifeScience Sdn Bhd** | No. 7, Jalan PPU 3,<br>Taman Perindustrian Puchong Utama,<br>47100 Puchong,<br>Selangor Darul Ehsan<br>Tel : +603-8061 2006<br>Fax : +603-8061 2875 |

# GROUP CORPORATE DIRECTORY

| List of Companies | Address |
|---|---|
| **Pharmaniaga Logistics Sdn Bhd**<br>(Juru Branch) | No. 1, 3 & 5, Lorong IKS Juru 8,<br>Taman Perindustrian<br>Ringan Juru,<br>14100 Simpang Ampat,<br>Seberang Prai, Pulau Pinang<br>Tel : +604-5083 330/1/2<br>Fax : +604-5083 111 |
| **Pharmaniaga Logistics Sdn Bhd**<br>(Kuching Branch) | Lot 1024, Block 7,<br>Muara Tebas Land District,<br>Demak Laut Industrial Park,<br>93050 Kuching, Sarawak<br>Tel : +6082-4328 00<br>Fax : +6082-4328 06 |
| **Pharmaniaga Logistics Sdn Bhd**<br>(Kota Kinabalu Branch) | Lorong Kurma,<br>Kolombong Industrial Centre,<br>KM 9, Off Jalan Tuaran,<br>88450 Kolombong,<br>Kota Kinabalu, Sabah<br>Tel : +6088-4391 88<br>Fax : +6088-4372 88 |
| **PT Millennium Pharmacon International Tbk**<br>(HQ) | Panin Bank Centre,<br>9th Floor, Jl. Jenderal Sudirman,<br>Senayan, Jakarta,<br>10270 Indonesia<br>Tel : +62-21 7278 8906/7<br>Fax : +62-21 7228 090 |
| **PT Mega Pharmaniaga** | Komplek Perkantoran Graha<br>Elok Mas,<br>Blok HH, No. 83,<br>Jl. Panjang, Kebon Jeruk,<br>Jakarta, 11510 Indonesia<br>Tel : +62-21 2950 8987<br>Fax : +62-21 2950 8988 |
| **PT Errita Pharma** | Jalan Peundeuy,<br>RT/RW 04/07,<br>Desa Bojongsalam,<br>Kecamatan Rancaekek,<br>Kabupaten Bandung,<br>Indonesia<br>Tel : +62-22 7949 062/4<br>Fax : +62-22 7949 063 |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Eighteenth Annual General Meeting of Pharmaniaga Berhad (467709-M) (the Company) will be held at The Royale Chulan Damansara Hotel, The Royale Ballroom, Level 2, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 29 March 2016 at 9.30 a.m. for the purpose of transacting the following business:

**ORDINARY BUSINESS**

1. To receive the Audited Financial Statements for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors. **[Please refer to Note (a)]**

2. To re-elect the following Directors of the Company who retire in accordance with Article 88 of the Company's Articles of Association:
   i. Tan Sri Dato' Seri Lodin Wok Kamaruddin **Resolution 1**
   ii. Izzat Othman **Resolution 2**

3. To consider and if thought fit, to pass the following resolutions in accordance with Section 129(6) of the Companies Act, 1965:
   i. "THAT pursuant to Section 129(6) of the Companies Act, 1965, Daniel Ebinesan be re-appointed as a Director of the Company and to hold office until the conclusion of the next Annual General Meeting." **Resolution 3**
   ii. "THAT pursuant to Section 129(6) of the Companies Act, 1965, Mohd Suffian Haji Haron be re-appointed as a Director of the Company and to hold office until the conclusion of the next Annual General Meeting." **Resolution 4**

4. To approve the Payment of Directors' Fees amounting to RM532,000 for the financial year ended 31 December 2015. **Resolution 5**

5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration. **Resolution 6**

**SPECIAL BUSINESS**

To consider and, if thought fit, pass the following resolutions, with or without modifications:

6. **Ordinary Resolution**
**Authority to Allot and Issue Shares in General Pursuant to Section 132D of the Companies Act, 1965** **Resolution 7**

"THAT pursuant to Section 132D of the Companies Act, 1965 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."

7. **Ordinary Resolution**
**Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature** **Resolution 8**

"THAT subject to the Companies Act, 1965 (Act), the Memorandum and Articles of Association of the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its Subsidiaries (Pharmaniaga Group) to enter into all transactions involving the Related Parties as specified in Section 2.2 of the Circular to Shareholders dated 7 March 2016 provided that such transactions are:

i. recurrent transactions of a revenue or trading nature;

ii. necessary for the day-to-day operations;

iii. carried out in the ordinary course of business on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and

iv. 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), 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 the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act [but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act]; or

iii. revoked or varied by resolution passed by the shareholders in a General Meeting;

whichever is 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."

8. **Ordinary Resolution** **Resolution 9**
**Proposed Additional Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

"THAT subject always to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiaries (Pharmaniaga Group) to enter into recurrent transactions of a revenue or trading nature with the Related Parties as specified in Section 2.3 of the Circular to Shareholders dated 7 March 2016 subject to the following:

(a) the transactions are in the ordinary course of business, at arms' length basis and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company;

(b) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the financial year;

(c) that such authority shall continue to be in force until:

i. the conclusion of the next Annual General Meeting (AGM) of the Company following the forthcoming AGM at which such Shareholders' Mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed;

ii. the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 [but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965]; or

iii. revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is earlier.

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to this Shareholders' Mandate."

9. To transact any other ordinary business of the Company.

By Order of the Board

**TASNEEM MOHD DAHALAN** (LS 0006966)
Secretary

Kuala Lumpur
7 March 2016

**Notes**

(a) The Audited Financial Statements laid at this meeting pursuant to Section 169(1) and (3) of the Companies Act, 1965 are meant for discussion only. It does not require shareholders' approval, and therefore, not put forward for voting.

(b) A member of Pharmaniaga entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him. A proxy may but need not be a member of Pharmaniaga and a member may appoint any person to be his proxy. The instrument appointing a proxy must be lodged at the Registered Office or Share Registrar's Office not less than forty-eight hours before the time of the Meeting.

(c) Only members registered in the Record of Depositors as at 21 March 2016 shall be eligible to attend the meeting or appoint a proxy to attend and vote on his/her behalf.

(d) The proposed ordinary resolution 7 above, 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 in a General Meeting, expire at the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting required by law to be held, whichever is earlier. The mandate sought is a renewal of the existing mandate.

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 in the Company were issued pursuant to the authority granted to the Directors at the 17th Annual General Meeting held on 31 March 2015. This authority will lapse at the conclusion of the 18th Annual General Meeting.

(e) The proposed ordinary resolutions 8 and 9, 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.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

**Statement Accompanying Notice of the Eighteenth Annual General Meeting pursuant to paragraph 8.27(2) of the Listing Requirements of Bursa Malaysia Securities Berhad**

1. **Directors who are standing for re-election and re-appointment at the Annual General Meeting**

   (a) Directors standing for re-election pursuant to Article 88 of the Company's Articles of Association:

      i. Tan Sri Dato' Seri Lodin Wok Kamaruddin

      ii. Izzat Othman

   (b) Directors standing for re-appointment pursuant to Article 129(6) of the Companies Act, 1965:

      i. Daniel Ebinesan

      ii. Mohd Suffian Haji Haron

   Details of attendance of Board Meetings of Directors seeking re-election and re-appointment are set out on page 66 of the Annual Report.

   Profile of Directors standing for re-election are out on pages 12 and 16 of the Annual Report, while details of their interest in securities are set out on pages 189 and 191 of the Annual Report.

2. **Date, time and place of the Annual General Meeting**

   The Eighteenth Annual General Meeting of Pharmaniaga Berhad will be held as follows:

   Date : Tuesday, 29 March 2016
   Time : 9.30 a.m.
   Place : The Royale Chulan Damansara Hotel,
   The Royale Ballroom, Level 2,
   No. 2, Jalan PJU 7/3, Mutiara Damansara,
   47810 Petaling Jaya,
   Selangor Darul Ehsan

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pharmaniaga (467709-M)
(Incorporated in Malaysia)

# FORM OF PROXY

I/We ______________________________ NRIC (New)/Company No.: ____________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ______________________________________________________________
(FULL ADDRESS)

being a member/members 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 Eighteenth Annual General Meeting of the Company to be held at The Royale Chulan Damansara Hotel, The Royale Ballroom, Level 2, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 29 March 2016 at 9.30 a.m. and at any adjournment thereof, to vote as indicated below:

| No. | Resolution | For | Against |
|---|---|---|---|
| 1. | To re-elect Tan Sri Dato' Seri Lodin Wok Kamaruddin, who retires pursuant to Article 88 of the Company's Articles of Association as Director of the Company. | | |
| 2. | To re-elect Izzat Othman, who retires pursuant to Article 88 of the Company's Articles of Association as Director of the Company. | | |
| 3. | To re-appoint Daniel Ebinesan, who retires pursuant to Section 129(6) of the Companies Act, 1965. | | |
| 4. | To re-appoint Mohd Suffian Haji Haron, who retires pursuant to Section 129(6) of the Companies Act, 1965. | | |
| 5. | To approve the Payment of Directors' Fees amounting to RM532,000 for the financial year ended 31 December 2015. | | |
| 6. | To re-appoint Messrs. PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration. | | |
| 7. | Ordinary Resolution<br>Authority to Allot and Issue Shares in General Pursuant to Section 132D of the Companies Act, 1965 | | |
| 8. | Ordinary Resolution<br>Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature | | |
| 9. | Ordinary Resolution<br>Proposed Additional Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature | | |

Dated this __________ day of __________ 2016

______________________________
Signature of Member/Common Seal

| | |
|---|---|
| No. of ordinary shares held: | |
| CDS Account No.: | |
| Proportion of shareholdings to be represented by proxies | First Proxy : __________%<br>Second Proxy: __________% |
| Contact No.: | |

**NOTES:**

1. A member of the Company entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him/her. If you wish to appoint as a proxy a person other than the Chairman of the Meeting, please insert in block letters the full name, address and NRIC No. of the person of your choice and 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.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.

3. 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.

4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, shall be deposited at the Company's Share Registrar, Tricor Investor & Issuing House Service Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, at least 48 hours before the time for holding the Meeting or adjourned Meeting at which the person or persons named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. The Annual Report and Proxy Form are available for access and download at the Company's website at www.pharmaniaga.com.

5. Only members registered in the Record of Depositors as at 21 March 2016 shall be eligible to attend the Meeting or appoint a proxy to attend and vote on his/her behalf.

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Share Registrar

**Tricor Investor & Issuing House Service Sdn Bhd** (11324-H)
Unit 32-01,
Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

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**PHARMANIAGA BERHAD** (467709-M)
No. 7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan
Malaysia

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Fax : +603 3341 7777

**www.pharmaniaga.com**