# PERSEVERANCE AMIDST CHALLENGES

ANNUAL REPORT 2019


## Cover Rationale

We remain steadfast and resilient as we face challenges in the current market landscape. With hard work, determination and the right mind-set, we will continue to strengthen and persevere in times of adversity to emerge stronger. By working hard on improving efficiencies, building on organic growth and unlocking opportunities for new investments, we will continue to stay the course and deliver sustainable results and value from our core business areas.

# INSIDE THIS REPORT



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**www.pharmaniaga.com**


PG.36
CHAIRMAN'S STATEMENT

PG.42
ACTING GROUP MANAGING DIRECTOR'S REVIEW

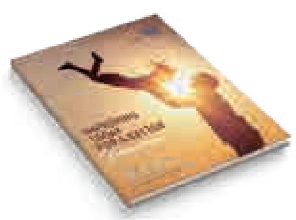
PG.50
OPERATIONS REVIEW

# ABOUT US

Providing products and services of high calibre is the core tenet of Pharmaniaga Berhad, particularly given our position as Malaysia's largest listed integrated pharmaceutical group. We are driven by our motto of *Passion for Patients* which is reflected in everything that we do.

Propelled by our strong commitment to excellence, the Group is involved in various segments of the pharmaceutical value chain including research and development, manufacturing of generic drugs and medical devices, logistics and distribution, sales and marketing, as well as community pharmacy.

Established as one the major players in the domestic market, we are strategically growing our international reach, especially in the regional market.

| The Report | Reporting Framework | Feedback |
|---|---|---|
| <br><br>**AR**2019 | This statement has been prepared in accordance with Main Market Listing Requirements of Bursa Malaysia Securities Berhad, Companies Act 2016, Malaysian Code on Corporate Governance, International Integrated Reporting Framework and the Malaysian Financial Reporting Standards. | This report is available online and can be downloaded from our website www.pharmaniaga.com. We encourage and value feedback from our stakeholders on the content of this report. If you have any comments or suggestions to share in this regard, please direct them to:<br>**Name** : Norai'ni Mohamed Ali<br>**Designation** : Group Chief Financial Officer<br>**Tel** : +603-3342 9999 / +6017-333 9908<br>**E-mail** : noraini.aliani@pharmaniaga.com |
| <br>**SR**2019 | This statement has been prepared in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, with reference to the Sustainability Reporting Guide issued by Bursa Securities (Bursa Securities). To improve our sustainability reporting this year, we have also aligned with the Global Reporting Initiative Standards, which reflect our efforts to disclose our performance in a comparable and meaningful manner. | This report is available online and can be downloaded from our website www.pharmaniaga.com. We encourage and value feedback from our stakeholders on the content of this report. If you have any comments or suggestions to share in this regard, please direct them to:<br>**Name** : Dr. Badarulhisam Abdul Rahman<br>**Designation** : Head of Sustainability<br>**Tel** : +603-3342 9999<br>**E-mail** : sustainability@pharmaniaga.com |

## OUR VISION

The preferred pharmaceutical brand in regional markets

## OUR MISSION

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

## OUR CORE VALUES

### RESPECT

DIGNITY. TRUST. FAIR. OPEN. HONOUR

- We believe in the inherent worth of people and will honour relationships with our fellow employees, our customers, our shareholders and our community.
- We measure respect for people by the way we treat each other, by the contributions that flow from our diversity, by the productivity of our relationships, and by a job well done, no matter what the job is.

### INTEGRITY

HONEST. TRUTHFUL. CONSCIENCE. SINCERE. ACCOUNTABILITY

- We adopt open and honest attitudes in all aspects.
- We adhere to all sets of rules, regulations and guidelines.
- We perform to our best ability at a very high standard whilst continuously improving the quality of our products and services.

### TEAMWORK

UNITY. HARMONY. CO-OPERATION. COMMITMENT. COLLABORATION

- We collaborate and work co-operatively across cultures and organisational boundaries to achieve shared goals and work towards solutions which generally benefit all parties involved.
- We share our beliefs and agree to a common cause to show our commitment to each other's well-being.

### EXCELLENCE

PROFESSIONAL. COURAGE. PRIDE. PROACTIVE. COMPETITIVE

- We show and keep our commitment to operate competitively, strive to acquire the relevant knowledge and skills and benchmark ourselves against world-class leaders in our effort for continuous improvement.
- We demonstrate flexibility as well as courage that highlight our ability to keep ourselves aligned with a world in motion.

# 2019 KEY DEVELOPMENTS

**SECURED EXTENSION WITH MOH**

25 MONTHS INTERIM, 5 YEARS LOGISTICS & DISTRIBUTION SERVICES

**CERTIFIED ISO 37001 : 2016 ANTI-BRIBERY MANAGEMENT SYSTEMS**

PHARMANIAGA LOGISTICS SDN BHD

**NEWLY REGISTERED PRODUCTS**

CLOSE TO 25

**SECURED HOSPITAL UNIVERSITI MALAYSIA SABAH EQUIPPING PROJECT**

WORTH RM 144 MILLION

**PEROZIN**

AVAILABLE AT MAJOR PHARMACY CHAINS ACROSS MALAYSIA

**ROYALEPHARMA ALLIANCE MEMBERS**

OVER 300 NATIONWIDE

# AT A GLANCE


**REVENUE**
**RM2.8 billion**

**COST SAVING INITIATIVES**
**RM4 million**

**EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION**
**RM131 million**

**ROBOTICS PROCESS AUTOMATION (RPA)**
SUCCESSFULLY AUTOMATED ORDER & INVOICE PROCESSING.
**24 HOURS, 7 DAYS A WEEK**

**CORPORATE RESPONSIBILITY INITIATIVES** OVER
**RM4 million**

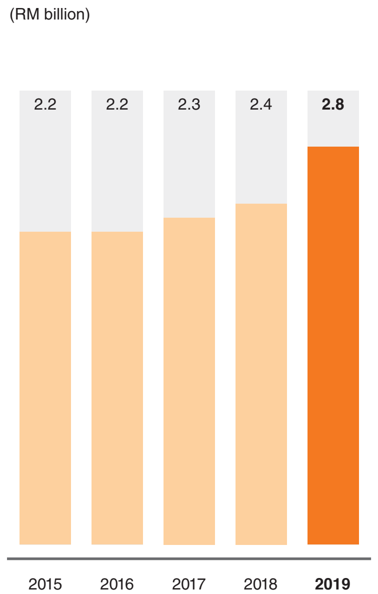
SUCCESSFULLY DEVELOPED, IMPLEMENTED & MAINTAINED
**PhIS**
TO IMPROVE THE HEALTHCARE SYSTEM WORTH
**RM340 million**

**EMPLOYEES** OVER
**3,600**
**99.8% local**

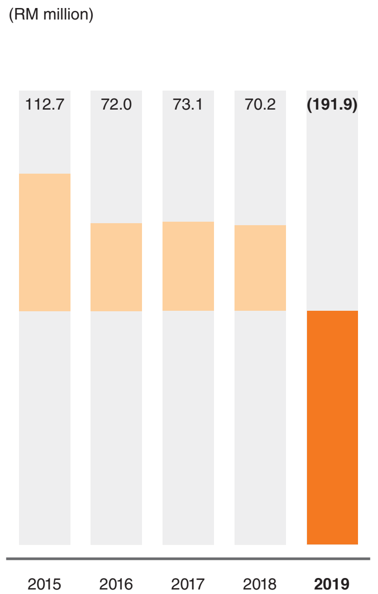
# FIVE-YEAR FINANCIAL HIGHLIGHTS

| All figures are in RM million unless otherwise stated | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| **FINANCIAL PERFORMANCE** | | | | | | |
| Revenue | | **2,820.5** | 2,385.0 | 2,324.0 | 2,189.0 | 2,189.3 |
| Earnings before interest, taxation, depreciation and amortisation | | **130.6** | 153.5 | 147.6 | 150.6 | 183.9 |
| (Loss)/Profit before taxation | | **(191.9)** | 70.2 | 73.1 | 72.0 | 112.7 |
| (Loss)/Profit after taxation | | **(149.4)** | 43.2 | 55.1 | 45.9 | 84.6 |
| Net attributable (loss)/profit | | **(149.2)** | 42.5 | 53.8 | 45.6 | 84.0 |
| (Loss)/Earnings per share | sen | **(57.2)** | 16.3 | 20.7 | 17.6 | 32.5 |
| Return on equity | % | **(35.2)** | 8.2 | 10.2 | 8.6 | 15.9 |
| Return on assets | % | **(8.7)** | 6.0 | 6.1 | 6.6 | 9.3 |
| Return on revenue | % | **(5.4)** | 4.4 | 4.4 | 4.8 | 5.8 |
| **DIVIDENDS** | | | | | | |
| Dividend payout | % | **(14.9)** | 98.0 | 91.6 | 90.9 | 92.4 |
| Dividend payment | | **22.2** | 41.6 | 49.3 | 41.5 | 77.7 |
| Net dividend per share | sen | **8.5** | 16.0 | 19.0 | 16.0 | 30.0 |
| Dividend yield | % | **4.1** | 5.8 | 4.1 | 3.0 | 4.7 |
| Dividend cover | times | **(6.7)** | 1.0 | 1.1 | 1.1 | 1.1 |
| **GEARING** | | | | | | |
| Borrowings | | **565.3** | 642.8 | 444.3 | 616.9 | 400.2 |
| Gearing | times | **1.7** | 1.3 | 0.8 | 1.2 | 0.8 |
| Interest cover | times | **(3.8)** | 2.9 | 3.5 | 3.1 | 5.9 |
| **OTHER FINANCIAL STATISTICS** | | | | | | |
| Net assets per share | sen | **129.0** | 196.0 | 203.0 | 205.0 | 204.0 |
| Price earning ratio | times | **(3.6)** | 17.0 | 22.2 | 30.1 | 19.6 |
| Paid up share capital | | **151.9** | 149.4 | 146.2 | 129.7 | 129.4 |
| Shareholders' equity | | **337.9** | 509.3 | 528.0 | 530.6 | 529.4 |
| Total equity | | **356.9** | 528.7 | 547.1 | 559.4 | 560.0 |
| Total assets | | **1,592.3** | 1,907.7 | 1,607.8 | 1,683.1 | 1,495.6 |

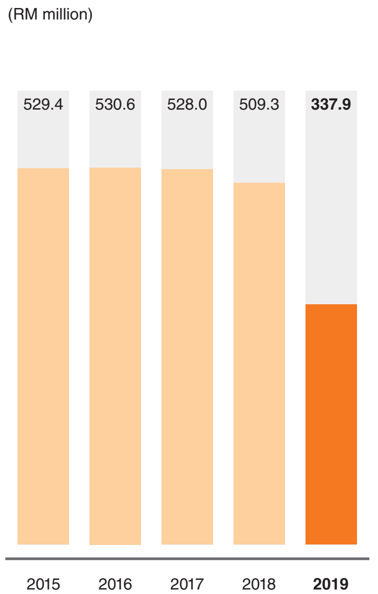
## REVENUE



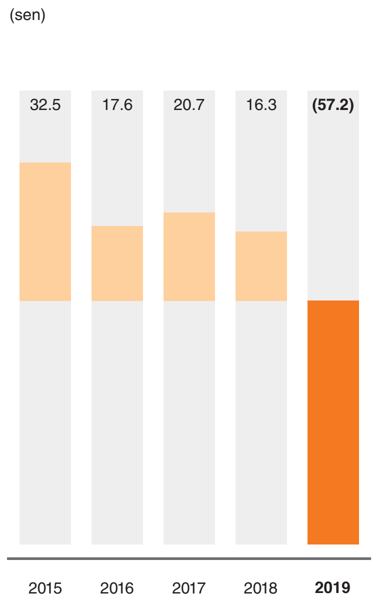

## (LOSS) / PROFIT BEFORE ZAKAT AND TAXATION



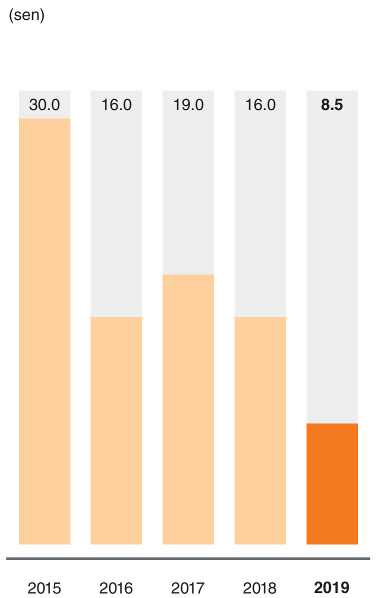

## SHAREHOLDERS' EQUITY



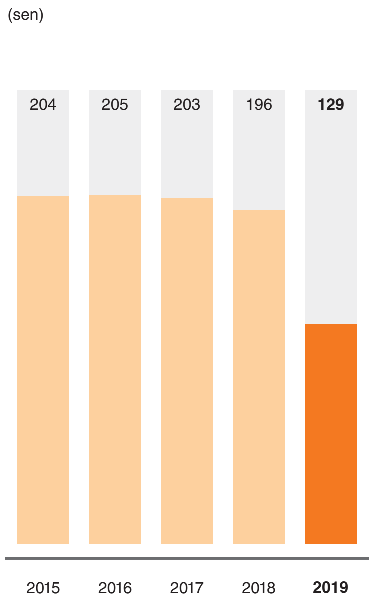

## (LOSS) / EARNINGS PER SHARE




## NET DIVIDEND PER SHARE




## NET ASSETS PER SHARE



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**DATUK (DR.) HAFSAH HASHIM***
Independent Non-Executive Chairman

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

**BRIGADIER GENERAL DATO' MOHD SHAHROM MOHAMAD (RTD.)***
Independent Non-Executive Director

**DATO' MOHD ZAHIR ZAHUR HUSSAIN***
Independent Non-Executive Director

**DATUK KOO HOCK FEE***
Non-Independent Non-Executive Director

**DR. SALMAH BAHRI****
Independent Non-Executive Director

* Appointed as Board Member on 17 July 2019
** Appointed as Board Member on 1 January 2020

## COMPANY SECRETARIES

Wan Intan Idura Wan Ismail (LS 0010452)
Syaruzaimi Yusof (LS 0010451)
Tel : +603-3342 9999
Fax : +603-3341 7777

## STOCK EXCHANGE LISTING

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

## REGISTERED OFFICE

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

## BUSINESS ADDRESS

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

## PRINCIPAL BANKERS

Affin Islamic Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
Hong Leong Islamic Bank Berhad
Standard Chartered Bank Malaysia Berhad

## AUDITORS

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

## SHARE REGISTRAR

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

## AUDIT COMMITTEE

**CHAIRMAN**
Dato' Mohd Zahir Zahur Hussain

**MEMBER**
Mohd Suffian Haji Haron*
Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired)
Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)

## NOMINATING AND REMUNERATION COMMITTEE

**CHAIRMAN**
Mohd Suffian Haji Haron*

**MEMBER**
Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired)
Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)
Dr. Salmah Bahri

## SUSTAINABILITY COMMITTEE

**CHAIRMAN**
Dr. Salmah Bahri

**MEMBER**
Mohd Suffian Haji Haron*
Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)
Dato' Mohd Zahir Zahur Hussain

## BOARD RISK MANAGEMENT COMMITTEE

**CHAIRMAN**
Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)

**MEMBER**
Mohd Suffian Haji Haron*
Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired)
Dato' Mohd Zahir Zahur Hussain

## BOARD TENDER COMMITTEE**

**CHAIRMAN**
–

**MEMBER**
Dato' Mohd Zahir Zahur Hussain
Dr. Salmah Bahri

* Board Member until 28 April 2020
** Established on 19 May 2020 and Chairman to be appointed at a later date

# FINANCIAL CALENDAR

## FINANCIAL YEAR

1 January to
31 December 2019

## ANNUAL REPORT

Issued on
19 June 2020

## ANNUAL GENERAL MEETING

To be held on
20 July 2020

## RESULTS

**1st Quarter**
Announced
**16 May 2019**

**2nd Quarter**
Announced
**23 August 2019**

**3rd Quarter**
Announced
**20 November 2019**

**4th Quarter**
Announced
**20 February 2020**

## DIVIDENDS

**1st Interim**
Announced
**16 May 2019**
Entitlement date
**04 June 2019**
Payment date
**27 June 2019**

**2nd Interim**
Announced
**23 August 2019**
Entitlement date
**12 September 2019**
Payment date
**11 October 2019**

# AWARDS & RECOGNITIONS

RECEIVED IN 2019

1 **CSR MALAYSIA AWARDS 2019 – COMPANY OF THE YEAR AWARD**
Integrated Pharmaceutical Group Category

2 **MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS AWARD**
Sector winner for Pharmaceutical Category

3 **19TH MALAYSIA-INTERNATIONAL HR AWARDS 2019**
Silver Award for Employer of Choice (Private) Category

4 **ASEAN ENERGY AWARDS – 2ND RUNNER UP**
Energy Management Industry & Sub-Category: Small & Medium Building
(Idaman Pharma Manufacturing Sdn Bhd Seri Iskandar)

5 **100 COMMENTS PRODUCT EXCELLENCE AWARD 2018**
Citrex Vitamin C Orange 100mg

6 **READERS' CHOICE AWARDS 2018**
Natural Health Category – Citrex Vitamin C Orange 100mg

7 **ANTI-BRIBERY MANAGEMENT SYSTEMS ISO 37001 : 2016**

# BOARD OF DIRECTORS

**Datuk (Dr.) Hafsah Hashim***
Independent
Non-Executive Chairman

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

**Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)***
Independent
Non-Executive Director

**Dato' Mohd Zahir Zahur Hussain***
Independent
Non-Executive Director

**Datuk Koo Hock Fee***
Non-Independent
Non-Executive Director

**Dr. Salmah Bahri****
Independent
Non-Executive Director

* Appointed as Board Member on 17 July 2019
** Appointed as Board Member on 1 January 2020

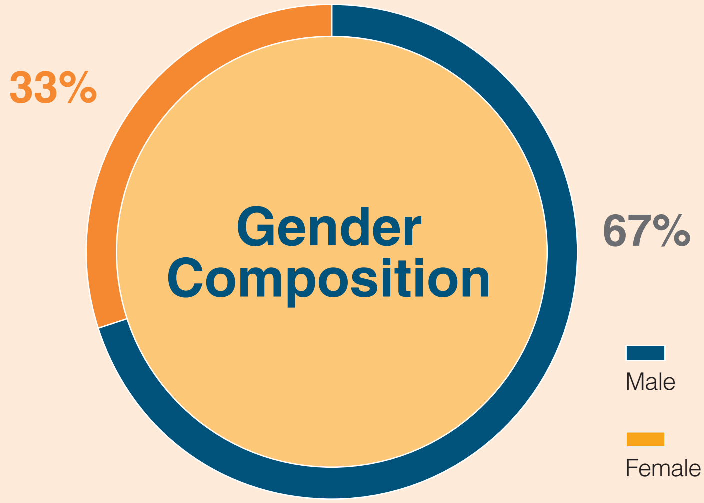
# “GREAT THINGS IN BUSINESS ARE NEVER DONE BY ONE PERSON. THEY’RE DONE BY A TEAM OF PEOPLE.”

STEVE JOBS

# BOARD AT A GLANCE

## BOARD COMPOSITION

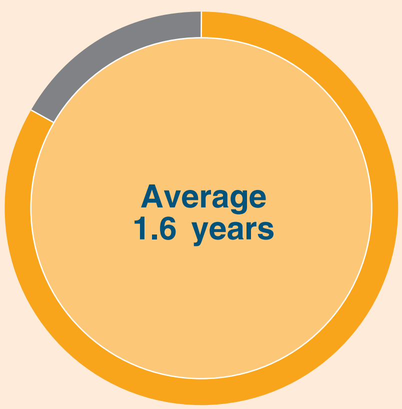
| | |
|---|---|
| 1 | Independent Non-Executive Chairman |
| 4 | Independent Non-Executive Directors |
| 1 | Non-Independent Non-Executive Director |




Male 4

Female 2

## BOARD TENURE




Below 1 year 5

More than 5 years 1

## BOARD SKILLS

| | |
|---|---|
| Leadership and Management | 100% |
| Government Risk and Compliance | 100% |
| Capital & Securities Markets | 33% |
| International Trade | 67% |
| Healthcare | 33% |
| Finance | 33% |
| Legal | 17% |

83%
**Independent Directors**

The **Chairman** is an **Independent Non-Executive Chairman**

The **positions** of the **Chairman** and the **Acting Group Managing Director** are held by different individuals

# PROFILE OF DIRECTORS

## DATUK (DR.) HAFSAH HASHIM
Independent Non-Executive Chairman

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
| --- | --- | --- | --- |
| Malaysian, Female | 62 | 17 July 2019 | Not Applicable |

### WORKING EXPERIENCE

Datuk (Dr.) Hafsah has had a distinguished career with the Malaysian Government, and has served various ministries including Ministry of International Trade and Industry, Ministry of Agriculture and Ministry of Primary Industries.

She was the Chief Executive Officer of SME Corporation Malaysia for almost 14 years and under her leadership, various policies and programmes were formulated that benefitted thousands of micro businesses and medium-sized companies. She was also the Secretary to the National SME Development Council.

Datuk (Dr.) Hafsah is the Chairman of SIRIM Technology Venture Sdn Bhd and also sits on the Boards of Johor Corporation, SIRIM Berhad, while assumes an Advisory role to the Board of Bank Islam Malaysia Berhad. At the international front, she has sat on the Monsha'at International Advisory Board Committee of Small and Medium Enterprise General Authority (SMEA) of the Kingdom of Saudi Arabia and International Advisory Committee Member of the Oman SME Authority.

She is also the Professor of Practice of Putra Business School, Universiti Putra Malaysia and Adjunct Professor for College of Business Management & Accounting, Universiti Tenaga Nasional.

Amongst her accomplishments include her appointment as Chairman of ASEAN SME Advisory Board and SME Working Group in 2011, Chairman of ASEAN SME Agency Working Group from 2000 to 2004 and Board Member of the Arab-Malaysia Chamber of Commerce. She has also been invited to speak at the August Houses of the New Zealand Parliament, House of Lords in the United Kingdom, World Trade Organisation in Geneva and the European Parliament amongst others. She was also a columnist with Business Times in the weekly column, 'She Speaks'.

On 17 July 2019, Datuk (Dr.) Hafsah was appointed as Independent Non-Executive Chairman of Pharmaniaga Berhad.

Board Committee(s)
- None

Qualification(s)
- Bachelor in Applied Science (Polymer Science and Technology), Universiti Sains Malaysia
- Masters in Business Administration, Aston University, United Kingdom

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

Directorship in other public listed companies
- Zurich Takaful Malaysia Berhad

Directorship in public companies
- Johor Corporation
- SIRIM Berhad

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

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

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

Independent Non-Executive Director

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
|---|---|---|---|
| Malaysian, Male | 64 | 29 December 2011 | 6 April 2017 |

### WORKING EXPERIENCE

Lieutenant General Dato' Seri Panglima Dr. Sulaiman began his career with Malaysia Armed Forces (MAF) in 1982 and was commissioned to the Royal Medical and Dental Corps.

During his service of more than 30 years in MAF, he held several key appointments including Commanding Officer of the 3rd Medical Battalion, Commandant of the MAF Health Training Institute, Assistant Director of Medical Services of the 4th Division, Director of Medical Services, Director Commanding Officer of the 94 Armed Forces Hospital and 96 Naval Armed Forces Hospital, and completed his illustrious career as Director General of MAF Health Services.

Lieutenant General Dato' Seri Panglima Dr. Sulaiman has vast experience in the management and supervision of MAF Health Services across Malaysia and was also involved in the development of Hospital Angkatan Tentera Tuanku Mizan Zainal Abidin. Throughout his stint with MAF, he has attended professional and military training courses in the country and abroad such as United States of America, Philippines, Thailand and Australia. His area of specialty is public health and health planning.

Board Committee(s)
- Member of Audit Committee
- Member of Nominating and Remuneration Committee
- Member of Board Risk Management Committee

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

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

Directorship in other public listed companies
- None

Directorship in public companies
- None

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

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

# PROFILE OF DIRECTORS

## BRIGADIER GENERAL DATO' MOHD SHAHROM MOHAMAD (RTD.)

Independent Non-Executive Director

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
|---|---|---|---|
| Malaysian, Male | 67 | 17 July 2019 | Not Applicable |

### WORKING EXPERIENCE

Brigadier General Dato' Mohd Shahrom began his career as a cadet officer in the Malaysian Army in 1974 and had an illustrious military career before he resigned in 1986 to practise law.

He was later admitted as Advocate and Solicitor of the High Court in Malaya and has conducted various civil and criminal cases including offences involving Internal Security Act 1960, Dangerous Drugs Act 1952, Banking and Financial Institutions Act 1989, forgery, criminal breach of trust and cheating.

He has also advised the Government of Malaysia on various concession agreements such as the privatisation of the North South Expressway, Malaysia-Singapore Second Crossing Bridge, Senai-Desaru Expressway and ELITE Expressway, as well as involved in numerous infrastructure projects in Indonesia, Philippines, India and Kazakhstan. He is the founding partner of Shahrom & Co, Advocates & Solicitors.

Although Brigadier General Dato' Mohd Shahrom has left the Army, he has remained active and served as Commander of three Territorial Army regiments since 1996 and Advisor to Rejimen 508 Askar Wataniah Negeri Sembilan until 1 August 2019.

On 17 July 2019, Brigadier General Dato' Mohd Shahrom was appointed as Independent Non-Executive Director of Pharmaniaga Berhad.

Board Committee(s)
- Chairman of Board Risk Management Committee
- Member of Audit Committee
- Member of Nominating and Remuneration Committee
- Member of Sustainability Committee

Qualification(s)
- Bachelor of Laws (Honours), Universiti Teknologi MARA
- Arbitrator, Asian International Arbitration Centre
- Member of Chartered Institute, Arbitrators, London
- Fellow of Asian Institute, Alternative Dispute Resolution

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

Directorship in other public listed companies
- SCOMI Group Berhad

Directorship in public companies
- None

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

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

## DATO' MOHD ZAHIR ZAHUR HUSSAIN

Independent Non-Executive Director

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
|---|---|---|---|
| Malaysian, Male | 44 | 17 July 2019 | Not Applicable |

### WORKING EXPERIENCE

Dato' Mohd Zahir has an established career as an auditor with various accounting firms including PricewaterhouseCoopers and Deloitte & Touche both at their Malaysia and overseas offices. He later became the Chief Financial Officer of Tracoma Holdings Berhad, a company focusing on the manufacturing of automotive components before appointed as the Audit Director for Baker Tilly Monteiro Heng, sixth largest accounting firm in the world.

He then assumed the role of Head of Fund Operations for CIMB-Principal Asset Management (CPAM) where he helped CPAM to obtain Global Investment Performance Standards and improved the company's internal control and processes.

Dato' Mohd Zahir later became the Group Chief Financial Officer of Prasarana Malaysia Berhad (Prasarana) and subsequently promoted as the Chief Executive Officer of Prasarana Integrated Development (PRIDE), a wholly owned subsidiary of Prasarana. PRIDE's business objective is to generate recurring income for Prasarana from its commercial activities such as advertising and retails, and largely from the development of properties, known as Transit Oriented Development (TOD).

Currently, he is the Senior Finance Director at Maybridge Consulting PLT, as well as a Finance Committee Member at Perbadanan Stadium Malaysia, a Director of Boustead Petroleum Sdn Bhd and a Director of Perbadanan Padang Golf Subang.

On 17 July 2019, Dato' Mohd Zahir was appointed as Independent Non-Executive Director of Pharmaniaga Berhad.

Board Committee(s)
- Chairman of Audit Committee
- Member of Sustainability Committee
- Member of Board Risk Management Committee
- Member of Board Tender Committee

Qualification(s)
- Bachelor of Commerce (Accounting), University of New South Wales, Sydney, Australia (1993 to 1997)
- Oxford Global CEO Program, Said Business School, Oxford University, United Kingdom (June 2012)
- Certified Financial Planner (October 2010 to Present)
- Member of Malaysian Institute of Accountants (January 2010 to Present)
- Fellow Chartered Accountants Australia & New Zealand (October 2001 to Present)

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

Directorship in other public listed companies
- None

Directorship in public companies
- None

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

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

# PROFILE OF DIRECTORS

## DATUK KOO HOCK FEE
Non-Independent Non-Executive Director

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
|---|---|---|---|
| Malaysian, Male | 69 | 17 July 2019 | Not Applicable |

### WORKING EXPERIENCE

Datuk Koo Hock Fee began his career as an auditor at Messrs. Morgan Brown & Haynes, London, United Kingdom in 1972 and established himself there before he returned to Malaysia in 1977. In 1980, he joined Boustead Holdings Berhad (BHB) as the Group Internal Auditor.

Throughout his tenure with the Boustead Group, he held several positions including Financial Controller of Boustead Trading Sdn Bhd, General Manager of Boustead Travel Sdn Bhd, Divisional Director of the Trading Division of BHB, as well as the Divisional Director of the Manufacturing Division of BHB.

Datuk Koo was also the Chief Executive Officer/Managing Director of UAC Berhad (UAC) and concurrently the Divisional Director, Industrial Division of BHB. He is now the Chairman of EXCO of Boustead Hotels & Resort Sdn Bhd.

Besides Pharmaniaga Berhad, Datuk Koo also sits on the Board of UAC Berhad until 15 January 2020.

On 17 July 2019, Datuk Koo Hock Fee was appointed as Non-Independent Non-Executive Director of Pharmaniaga Berhad.

Board Committee(s)
- None

Qualification(s)
- Fellow of the Institute of Chartered Accountants in England and Wales
- Member of the Malaysian Institute of Accountants

Details of any interest in the securities of Pharmaniaga Berhad
- 108,024 Ordinary Shares

Directorship in other public listed companies
- None

Directorship in public companies
- UAC Berhad (until 15 January 2020)
- Boustead Properties Berhad

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

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

# DR. SALMAH BAHRI

Independent Non-Executive Director

| Nationality/Gender | Age | Date of first appointment to the Board | Date of last re-election |
|---|---|---|---|
| Malaysian, Female | 61 | 1 January 2020 | Not Applicable |

## WORKING EXPERIENCE

Dr. Salmah began her career as a registered pharmacist at Muar Hospital, Johor and since then had served the Ministry of Health Malaysia (MOH) in various departments at the state and national level for more than 35 years with her last position as Senior Director of Pharmaceutical Services, MOH. While she had accumulated vast experiences in the practices of hospital pharmacy, enforcement, regulatory and management throughout her tenure with MOH, Dr. Salmah holds a strong background in Drug Policy and Management, in which she obtained her Masters and PhD in this field of expertise.

During her tenure, she sat in numerous international and local Government Boards and Advisory Bodies. Amongst her outstanding roles were as Chairman of the ASEAN Consultative Committee for Standards and Quality (ACCSQ) - Pharmaceutical Product Working Group (PPWG); Lead Coordinator for Thematic Area 4: Medicines Vaccines and Medical Technologies Organisation of Islamic Cooperation (OIC) Strategic Health Programme of Action; and Co-Chairman, Member State Mechanism on Substandard and Falsified Medical Products Meeting on behalf of WHO Western Pacific Region (WPRO). She was also alternate Chairperson for several MOH decision-making boards where the Director-General of Health presides as the Chairperson such as The Drug Control Authority, The Poisons Board, The Pharmacy Board and The Medicines Advertisement Board.

Throughout her illustrious career, Dr. Salmah was actively involved in research and development of medicines usage in Malaysia, and had her write-ups published in various publications and journals. Highly respected and recognised by the pharmaceutical industry, she was often invited to share her knowledge and expertise at numerous seminars and conferences both in Malaysia and overseas. In February 2018, she represented MOH to the Global Intellectual Property and Access to Medicines Summit and received the Leadership Award on Intellectual Property and Access to Medicines.

On 1 January 2020, Dr. Salmah Bahri was appointed as Independent Non-Executive Director of Pharmaniaga Berhad.

Board Committee(s)
- Chairman of Sustainability Committee
- Member of Nominating and Remuneration Committee
- Member of Board Tender Committee

Qualification(s)
- Bachelor of Science (B.Sc) (Pharmacy) University of Baghdad, Rep. of Iraq
- Master of Science (M.Sc) (Pharmacy) (Drug Policy and Management) Universiti Sains Malaysia
- Doctor of Philosophy (Ph.D) (Drug Policy and Management) Universiti Sains Malaysia

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

Directorship in other public listed companies
- None

Directorship in public companies
- None

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

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

# OUR APPRECIATION

## DATO' FARSHILA EMRAN

Group Managing Director (Until 31 March 2020)

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

In 2005, she took a bold step by taking over a pharmaceutical plant in Sungai Petani, Kedah and established Idaman Pharma Manufacturing Sdn Bhd (IPMSB). Subsequently, she acquired another plant in Seri Iskandar, Perak. Under her leadership, IPMSB developed a synergistic partnership with Boustead Holdings Berhad (Boustead) and facilitated the acquisition of Pharmaniaga Berhad by Boustead in 2011.

Dato' Farshila was subsequently appointed as the Group Managing Director of Pharmaniaga Berhad and since then, she has successfully enhanced the value of the company.

She has won several awards including Anugerah Tokoh Srikandi by Gabungan Pelajar Melayu Semenanjung (GPMS) and The Asia HRD Awards for Contribution to Society Award in 2018, Woman Entrepreneur of the year 2017 by Aces Corporate Excellence & Sustainability Awards, Masterclass Excellence Award for Woman CEO of the Year at Utusan Business Awards 2015; MBA Industry Excellence Award – Health Services by The ASEAN Business Advisory Council Malaysia in 2013 and Anugerah Kesatria Puteri Korporat, an initiative of the Ministry of Women, Family and Community Development, Malaysia in 2012.

She was also conferred with Honorary Mastership by Cyberjaya University College of Medical Sciences in 2016. Dato' Farshila sits on Universiti Kuala Lumpur's Industrial Advisory Board and also a member of Global Science & Innovation Advisory Council Steering Committee for Malaysia.

Her other accomplishments include appointment as an Advisory Board Member and Academic Programme Advisory Committee for Othman Yeop Abdullah Graduate School of Business (OYAGSB), Universiti Utara Malaysia.

## MOHD SUFFIAN HAJI HARON

Senior Independent Non-Executive Director (Until 28 April 2020)

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

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

## IZZAT OTHMAN

Independent Non-Executive Director (Until 31 July 2019)

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

He is a partner in Messrs. Azzat & Izzat Advocates & Solicitors and currently is a practising lawyer with more than 33 years of experience.

## FAHMY ISMAIL

Non-Independent Non-Executive Director (Until 31 July 2019)

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

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

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

## TAN SRI DATO' SERI DR. HAJI MOHAMED ISMAIL MERICAN

Independent Non-Executive Director (Until 17 September 2019)

Tan Sri Dato' Seri Dr. Haji Mohamed Ismail is currently the Pro-Chancellor and Chairman of the Board of Governors of MAHSA University and a Consultant Hepatologist and Internal Medicine Specialist at Prince Court Medical Centre, Malaysia.

Highly respected in the healthcare industry, he was the Director-General of Health of Malaysia, President of the Malaysian Medical Council and was a member of the Promotion Board of the Malaysian Civil Service. He was also a member of the Board of Directors of the National Heart Institute, Chairman of the National Committee for Clinical Research, Chairman of Drug Control Authority, Chairman of National Poisons Board, Chairman of Medicine Advertisement Board and Chairman of Pharmacy Board.

# SENIOR MANAGEMENT TEAM

**Sharifah Fauziyah Syed Mohthar**
Regulatory Affairs Director

**Abdul Malik Mohamed**
Logistics & Distribution Director

**Zulhazri Razali**
Commercial Director

**Ida Marianna Abdul Rashid**
Strategic Planning Director

**Mohamed Iqbal Abdul Rahman**
Acting Group Managing Director

**Mohamad Muhazni Mukhtar**
President Director PT MPI Tbk / Head of Community Pharmacy & Consumer Healthcare

**Yang Fairuz Abdul Aziz**
Corporate Services Director

**Wan Intan Idura Wan Ismail**
Corporate Governance Deputy Director

**Zakaria Daud**
President Director PT Errita Pharma

**Datin Shamsinar Haji Shaari**
Technical Director

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

# PROFILE OF SENIOR MANAGEMENT TEAM

## Mohamed Iqbal Abdul Rahman

Acting Group Managing Director

**Age** : 56

**Gender** : Male

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 April 2020

### Working Experience

Mohamed Iqbal joined Pharmaniaga in 2011 as Information Technology Director before he was promoted as Chief Operating Officer in the following year. Subsequently, he was appointed as Acting Group Managing Director on 1 April 2020.

With more than 30 years of experience, mainly in System Improvement & Operations Management, he spearheaded the implementation of Business Intelligence System, which led to significant improvement to the company's logistics operations. He was also instrumental in the successful implementation of Pharmacy Information System at over 1,200 Ministry of Health's facilities throughout Malaysia.

Prior to joining Pharmaniaga, Mohamed Iqbal was the General Manager Operations of Faber Medi-Serve Sdn Bhd (Faber), a hospital support services provider. He was responsible for Faber's overall operations and performance, while overseeing all the regional offices, plants and hospitals within the Concession. He was also the key liaison person, leading all the stakeholder engagement activities with the Government. Preceding to that, he was the Head of Information and Communication Technology for Faber and has also served in Maybank Group where he was recognised as an outstanding employee.

A Bachelor of Computer Science degree holder from University Putra Malaysia, Mohamed Iqbal is a strong believer in the fit-for-purpose technology and cost improvement. His experience and leadership have been focused on developing and delivering technology-driven business solutions, providing outstanding client service, and driving profitable revenue growth.

### Qualification(s):

- Bachelor of Computer Science, Universiti Putra Malaysia

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Norai'ni Mohamed Ali

Group Chief Financial Officer

**Age** : 53

**Gender** : Female

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 June 2012

### Working Experience

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

Prior to joining the Company, Norai'ni was attached to Opus Group Berhad, a subsidiary of UEM Group Berhad for 8 years.

She is responsible for all financial matters including acquisition of strategic business, treasury, risk management strategies and formulation of financial policies and tax planning of Pharmaniaga. She has vast experience of more than 28 years in accounting and finance.

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Datin Shamsinar Haji Shaari

Technical Director

**Age** : 66

**Gender** : Female

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 April 2011

### Working Experience

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

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

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

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

# PROFILE OF SENIOR MANAGEMENT TEAM

## Abdul Malik Mohamed

Logistics & Distribution Director

**Age** : 55

**Gender** : Male

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 April 2011

### Working Experience

Abdul Malik joined Pharmaniaga in 2003 as a Senior Manager in IT, then moved on as General Manager of Supply Chain Management in 2008. Subsequently, in 2011 he was promoted to the position of Logistics and Distribution Director.

He undertook various professional segments namely healthcare, distribution and logistics systems and brings over more than 28 years of experience to the company from his key roles in IT Project Management, Logistics Operations and Supply Chain Management.

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Sharifah Fauziyah Syed Mohthar

Regulatory Affairs Director

**Age** : 49

**Gender** : Female

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 April 2011

### Working Experience

Sharifah Fauziyah was appointed as the Regulatory Affairs Director of Pharmaniaga in 2011, she oversees regulatory affairs, clinical affairs, regulatory compliance and customer care. She started her career in 1995 with Procter & Gamble before joining Idaman Pharma Sdn Bhd in 2001 and became the Site Director of Idaman Pharma Manufacturing Sdn Bhd in 2005. On 1 September 2019, she was appointed as a member of Pharmacy Board Malaysia. She has more than 20 years of experience in the pharmaceutical industry.

### Qualification(s):

- Bachelor of Pharmacy (Honours), Universiti Sains Malaysia

**Any directorship in public companies and public listed companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Zulhazri Razali
Commercial Director

**Age** : 53

**Gender** : Male

**Nationality :** Malaysian

**Date of Appointment to Present Position** : 1 June 2014

### Working Experience

Zulhazri joined Pharmaniaga in 1994 as an Assistant Manager of Customer Care. He continued expanding his career in the Company by developing his skills and knowledge in warehouse management, supply chain, international business, sales marketing, finance and business strategy.

He was promoted as the Commercial Director in 2014. He oversees the sales & marketing division and identify strategic business potential for local and international markets. This include some operations of PT Millennium Pharmacon International TBK in Indonesia.

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Yang Fairuz Abdul Aziz
Corporate Services Director

**Age** : 47

**Gender** : Female

**Nationality :** Malaysian

**Date of Appointment to Present Position** : 1 September 2017

### Working Experience

Yang Fairuz was appointed as the Corporate Services Director in 2017. Prior to this appointment, she was the Head of Community Pharmacy for Pristine Pharma Shd Bhd, managing RoyalePharma Pharmacy and Vendor Development Programme.

Before joining Pharmaniaga, she was attached to Schlumberger's Geosciences and Petroleum Engineering segment. Yang Fairuz has vast experience in sales, business development, operations, human resource and project management.

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

# PROFILE OF SENIOR MANAGEMENT TEAM

## Ida Marianna Abdul Rashid

Strategic Planning Director

**Age** : 46

**Gender** : Female

**Nationality :** Malaysian

**Date of Appointment to Present Position** : 1 February 2018

### Working Experience

Ida Marianna Abdul Rashid was appointed as Director of Strategic Planning in February 2018. Her main role is to direct and oversee Pharmaniaga's strategic and long-range goal planning function, drives strategic initiatives, and supports the development of long-term growth plans and profitability goal. Joining Pharmaniaga, she brought with her more than 24 years of vast corporate and international experience in various disciplines.

Ida started her career as a Research Executive with Nielsen Malaysia, a market research agency, before venturing into the oil & gas industry. Fulfilling her obligation as a PETRONAS scholar, she was attached to Malaysia national oil company for 8 years in multiple roles, which includes HR & Admin, development of refinery linear programming (LP) model and managing the overall business planning process for PETRONAS Downstream business. Her last portfolio was Strategic Planning Analyst for Oil Business in the Vice President's Office, before spreading her wings to acquire international experience.

Subsequently, Ida joined a US independent oil company, Hess Corporation (Hess) as a Senior Business Analyst for Southeast Asia, before she was promoted to lead the Asia Pacific exploration planning function. Ensuing to her planning roles, she further diversified her professional skills by advancing into the role of Asia Pacific Global Negotiation and Commercial Advisor. Leveraging on Ida's strength and versatile capability, she was appointed as Head of Communications and External Affairs for Hess Asia where she was a member of the Asia Leadership Team, reporting directly to the Country Head and Vice President for Asia. She is also a trained spoke-person for crisis management and media relations.

### Qualification(s):

- Bachelor of Science (Honours) Majoring in Genetics, Universiti Malaya

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Wan Intan Idura Wan Ismail

Corporate Governance Deputy Director

**Age** : 40

**Gender** : Female

**Nationality :** Malaysian

**Date of Appointment to Present Position** : 1 January 2017

### Working Experience

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

She continued to expand her career in Pharmaniaga by developing relevant skills and knowledge and was subsequently promoted as Deputy Director, Corporate Governance Division in 2017. She has been appointed as the Company Secretary of Pharmaniaga Berhad on 19 November 2019 and is responsible for all the legal and secretarial services of the Company.

She was admitted to the Malaysian Bar in 2016. With more than 14 years of experience as an in-house legal counsel, she has vast experience in both local and international dealings within the pharmaceutical, information technology solutions, manufacturing and automotive industries.

### Qualification(s):

- Bachelor of Laws (Honours), Universiti Teknologi MARA
- Admission to Malaysian Bar in 2006
- Licensed Company Secretary (LS 0010452)

**Any directorship in public companies and public listed companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Mohamad Muhazni Mukhtar

President Director PT MPI Tbk / Head of Community Pharmacy & Consumer Healthcare

**Age** : 51

**Gender** : Male

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 October 2012

### Working Experience

Mohamad Muhazni joined on 1 October 2012 as the President Director of PT. Millennium Pharmacon International Tbk, Pharmaniaga's Indonesian subsidiary. Subsequently, he was appointed as the Head of Community Pharmacy of Pharmaniaga in 2020, managing Consumer Healthcare, RoyalePharma Community Pharmacy, Alliances and e-commerce.

Armed with his extensive experience in logistics, sales and digital marketing, he has steadily guided both business operations to reach greater heights.

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

### Qualification(s):

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

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

## Zakaria Daud

President Director, PT Errita Pharma

**Age** : 58

**Gender** : Male

**Nationality** : Malaysian

**Date of Appointment to Present Position** : 1 January 2015

### Working Experience

Zakaria was appointed as the President Director cum Head of Plant for PT Errita Pharma, a subsidiary of Pharmaniaga International Corporation Sdn Bhd on 1 January 2015. He is responsible for overseeing the manufacturing and sales of Pharmaniaga's pharmaceutical products in Indonesia.

Prior to relocating to Indonesia, Zakaria was the Head of Plant at Idaman Pharma Manufacturing Sdn Bhd at Seri Iskandar, Perak. He has over 30 years of experience in the field of sales, supply chain management, customer service and logistics, amongst others at local, ASEAN and Asia level.

### Qualification(s):

- Bachelor of Pharmacy (Honours), Universiti Sains Malaysia

**Any directorship in public companies and public listed companies:**
- None

**Directorship in public companies:**
- None

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

**Any conflict of interests with the Company:**
- None

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

# NURTURING LEADERS

"We believe in cultivating leadership at all levels within the Company. By identifying personal leadership styles and individual strengths, we can help employees reach their full potential, while also enabling the Company to grow and evolve."

# CHAIRMAN'S STATEMENT

## OPPORTUNITIES AMIDST ADVERSE BUSINESS CHALLENGES

**DATUK (DR.) HAFSAH HASHIM**
Independent Non-Executive Chairman

# Dear shareholder,

**It is indeed an honour to pen my inaugural statement as Chairman of Pharmaniaga Berhad following my appointment in July 2019. Having long been involved in the field of public and private administration and serving under various ministries, I am pleased to bring these years of experience to guide the continued growth of the Group.**

Guided by our motto *Passion for Patients*, we are focused on the sustainable growth of the Group

Without a doubt, today's operating environment is more challenging than ever before, as companies across the globe must contend with intense competition and increasingly complex market dynamics.

Pharmaniaga has not been spared the impact of these adverse business challenges. Nonetheless, I am pleased to share that we continued our march forward in 2019, strengthening our foothold in the pharmaceutical industry, building on our solid fundamentals and honing in on new growth segments. Guided by our motto *Passion for Patients*, embodying our approach to deliver affordable, high quality healthcare solutions, we are focused on the sustainable growth of the Group.

This approach enabled the Group to deliver positive operational results during the year and retain its position as one of Malaysia's leading integrated pharmaceutical companies, in tandem with supporting our aspirations to seize prospects in the global healthcare sector in the near future.

## ECONOMIC LANDSCAPE

Global economic growth saw a marked slowdown in 2019, expanding by only 2.9% during the year, as a result of reduced trade and investment. Growth was subdued in both major and emerging economies, impacted by market uncertainties and headwinds from the trade dispute between the United States and China.

Against this backdrop, the Malaysian economy expanded moderately by 4.3% in 2019. This was anchored by moderate domestic demand and private sector expenditure. The services and manufacturing sectors were key areas of growth for the domestic economy.

# CHAIRMAN'S STATEMENT

## FINANCIAL PERFORMANCE

We are pleased to report that the Group recorded an improved revenue of RM2.8 billion for the financial year ended 31 December 2019, amidst economic headwinds and tough market conditions. However, full recognition on the remaining unamortised Pharmacy Information System (PhIS) costs resulting from the new Government contract impacted our performance, leading to a net loss of RM149 million. What is important to note is that this represents a one-off non-cash item and will be better for the Group's profitability moving forward as we will no longer need to bear this cost in the future.

Demonstrating our positive operational performance, the Group closed the year with earnings before interest, taxation, depreciation and amortisation of RM131 million.

This was supported by our improved liquidity position, which we continued to reinforce through ongoing cost optimisation and implementation of various measures to enhance operational efficiencies. Market capitalisation came in at RM538 million while shareholders' funds stood at RM338 million as at 31 December 2019. Net assets per share was RM1.29.

## DIVIDEND

During the year, we declared dividends of 8.5 sen per share, amounting to a total payout of RM22.2 million to shareholders.

## HUMAN CAPITAL

Our people are our most important asset, forming the foundation of the Group's success. Only with a highly engaged and performance-driven talent base will we be able to move forward.

To this end, we have instilled an organisational culture that empowers our more than 3,600-strong workforce across our domestic and overseas operations to fully realise their potential. From holistic talent development resources for our employees to graduate training programmes, we are committed to build an end-to-end talent pipeline.

Pursuant to this, we took in close to 70 young Malaysians under the Professional Training and Education for Graduating Entrepreneurs (PROTÉGÉ) programme which provided valuable on-the-job training experience.

In addition, we ensure strong employee engagement with a range of activities that bring our people together. These initiatives not only build camaraderie and teamwork, but also help to ensure the welfare of our employees.

## SUSTAINABILITY

Sustainability is integral to Pharmaniaga's organisational culture and business activities. As the Group progresses, we are mindful to undertake the necessary steps to ensure that we develop in a sustainable manner, cultivating a lasting legacy of responsible, inclusive growth which positively impacts the communities around us and our environment.

The Group's operational performance closed the year with earnings before interest, taxation, depreciation and amortisation of RM131 million


With sustainability instilled at the core of the Group, we have established key commitments in economic, environmental and social areas of impact. In line with this, various measures and initiatives have been put in place to enable us to achieve our objectives.

During the year, we invested over RM4 million in corporate responsibility efforts. A key initiative was *Skuad Operasi Sihat*, with over 30 programmes which benefitted more than 3,200 participants across the nation with a wide range of complimentary healthcare programmes. This included providing health education, counselling and basic medical screening. During the challenge to deal with the unhealthy levels of haze which affected Malaysia in 2019, we distributed face masks to traffic officers of Polis DiRaja Malaysia to help provide protection from the heightened exposure which they endured as an occupational hazard.

We gave back to underprivileged communities through outreach activities such as festive celebrations, distribution of meals, donation of basic necessities and financial assistance. We have a number of initiatives to support young Malaysians, especially those from needy families, providing sponsorship for *Program Tuisyen Pintar Harapan* at six MARA Junior Science Colleges, as well as *Program 'Speaking Nation' Pembelajaran Abad Ke-21* spearheaded by the Ministry of Education Malaysia and Yayasan Pesona. Apart from this, our 'Back to School' programmes equipped children from underprivileged homes with necessities to prepare them for the school year. Recognising the bravery and sacrifice of members of the Armed Forces, we also contributed to Tabung Pahlawan.

SKUAD OPERASI SIHAT™


Over
**RM4** million
in corporate responsibility

Over
**30** programmes
nationwide

Benefitted more than
**3,200** participants

# CHAIRMAN'S STATEMENT

As we strive to be a custodian of our environment, our Go Green initiatives enabled us to make a positive impact. This included utilising recycled materials for product packaging, which was introduced at our Seri Iskandar manufacturing site and subsequently rolled out to our Sungai Petani, Bangi and Bandung facilities. We also have a water recycling programme in place which uses recycled water for injection (WFI) discharge water for boils and cooling towers. Apart from this, we installed solar powered LED compound lighting at our Seri Iskandar facility and solar panels at our Sungai Petani site. Other Go Green initiatives organised during the year were mangrove planting in Sungai Petani, Kedah and a beach clean-up in Seri Iskandar, Perak.

Our commitment to sustainability encompasses our overseas operations as well. In Indonesia, we collaborated with the Indonesian Army for a clean-up of the Citarum River, in Bandung. We also introduced the use of recycled paper in our packaging and launched our *Bawa Kantong Sendiri* (BAKRI) initiative to encourage our employees to utilise reusable bags, in a bid to reduce single-use plastic.

Our dedicated standalone Sustainability Report provides a comprehensive review of our achievements during the year. We remain focused on realising and expanding our sustainability commitments across our operations.

## OUTLOOK

From a long-term perspective, the Group remains positive on its outlook. The fact that the Group continued to register solid growth in revenue in 2019 is indeed encouraging and bodes well for prospects ahead.


The new five-year contract secured with Ministry of Health (MOH) for logistics and distribution services, ending 31 December 2024 as well as the provision of medicines and medical supplies to MOH facilities from 1 December 2019 to 31 December 2021, are set to be key contributors to the Group's results.

The COVID-19 pandemic has impacted every nation and every citizen in one way or another, with some segments of society more impacted than others. Recognising the importance of pulling together in times of uncertainty and as part of the Group's corporate responsibility efforts, in 2020, Pharmaniaga took the initiative to reach out to our frontliners at the hospitals, organisations and the needy. Leveraging on our well-established logistics and distribution framework, we offered our services to deliver all items donated to MOH, to affected hospitals and clinics throughout the country, at no cost. To date, millions of various medical equipment including facemasks, ventilators and gloves, amongst others have been distributed to Covid-19 designated hospitals.

As we march forward, we are conscious of the need to strategise our future growth given the rapidly changing economic and socioeconomic climates resulting from the COVID-19 pandemic.

Pharmaniaga will adapt to the new norm resulting from the pandemic and will leverage on technology to further transform the way we do our business to ensure we meet the expectations

of all stakeholders. We will continue to provide quality products and services while looking out for new opportunities of growth in terms of both the range of our products as well as the efficiency of our services. This will enable the Group to grow its various business streams as well as overseas operations, led by the Indonesian business.

## ACKNOWLEDGEMENT

The strength of any business is premised upon the capabilities of its leaders. To that end, I must commend our esteemed Board for steering the Group through a tumultuous year. This was complemented by the dedicated efforts of our management team and employees.

We would also like to take this opportunity to thank our former Directors, Encik Mohd Suffian Haji Haron, Encik Izzat Othman, Encik Fahmy Ismail and Tan Sri Dato' Seri Dr. Haji Mohd Ismail Merican for their immense contribution to Pharmaniaga during their respective tenures and wish them well in all their future undertakings.

On behalf of the Group, I would also like to express our utmost appreciation to our former Group Managing Director, Dato' Farshila Emran. Under her exceptional leadership, Pharmaniaga has seen steady growth and success. We thank her for her distinguished service, dedication and contribution and we would like to wish all the very best in the course of her journey.

Moving forward, Pharmaniaga is pleased to extend a warm welcome to our new Board Members; Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.), Dato' Mohd Zahir Zahur Hussain, Datuk Koo Hock Fee, who were appointed in July 2019, and Dr. Salmah Bahri, who joined us effective January 2020. The vast experience and expertise that each bring will surely be beneficial in leading the Group as we pursue our growth plans.

Last but certainly not least, I wish to also record my utmost appreciation and gratitude to our key client, the Ministry of Health, together with all other clients, our major stakeholders, Lembaga Tabung Angkatan Tentera (LTAT) Malaysia and Boustead Holdings Berhad (BHB), our partners, bankers and the relevant authorities in Malaysia and internationally, for their invaluable support to Pharmaniaga.

**DATUK (DR.) HAFSAH HASHIM**
Independent Non-Executive Chairman

# ACTING GROUP MANAGING DIRECTOR'S REVIEW

## RECORDED SUSTAINED GROWTH

**MOHAMED IQBAL ABDUL RAHMAN**
ACTING GROUP MANAGING DIRECTOR

## Dear shareholder,

**Despite tough economic conditions, Pharmaniaga weathered through a volatile year, supported by our strong foundation and tapping into pockets of opportunities that the Group was well-poised to capture.**

**Leveraging on the inherent potential of the healthcare sector, the Group recorded sustained growth in our various business streams and further reinforced our competitive edge.**

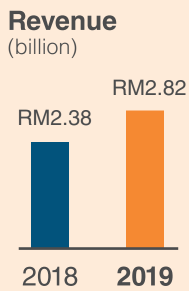
**Along with our steadfast focus on the sustainable growth of the business, we continue to be driven by our motto *Passion for Patients*. True to this, we are ever-mindful that our products and services contribute to the health and wellbeing of millions of Malaysians, as well as those beyond our shores as we strive to broaden our overseas presence.**

### FINANCIAL PERFORMANCE

The Group demonstrated our resilience, delivering increased revenue which grew by 18.3% to RM2.82 billion compared with RM2.38 billion in the previous year. This was achieved on the back of positive contributions from both the concession and non-concession businesses.

We are very pleased to announce that in November 2019, the Ministry of Health (MOH) extended Pharmaniaga's services for the provision of medicines and medical supplies to MOH facilities for an interim period of 25 months, commencing 1 December 2019 to 31 December 2021. In addition, we secured a contract to continue providing logistics and distribution services to MOH for a period of five years ending 31 December 2024.

Nevertheless, despite strong revenue growth, the Group was impacted by the revised useful life of the Pharmacy Information System (PhIS), which had to be fully recognised in the year under review. This exercise is a one-off non-cash item and since PhIS is now fully recognised, it will no longer have a bearing on the Group's profitability moving forward.




# ACTING GROUP MANAGING DIRECTOR'S REVIEW

Upon signing the logistics and distribution concession with MOH in 2011, Pharmaniaga was tasked by MOH to develop the PhIS for all its hospitals and clinics, at a total cost of RM340 million. The expenses incurred for this project, which benefits the Government and the *Rakyat*, were to be capitalised and amortised over a 10-year concession period. In 2016, we revised the useful life of PhIS in accordance with the Malaysian Financial Reporting Standards for an additional 10 years. This was based on indications that the initial concession period would be extended to 2029, given that at that juncture in time, negotiations were underway to finalise the terms and conditions for the extension of the concession.

Given the recent development surrounding the concession arrangement, the Group has reassessed the remaining useful life of the PhIS. Notwithstanding the MOH's decision of extending the Concession Agreement for a further 25 months, there remains uncertainty surrounding the actual concession period. Accordingly, the Group has decided to fully amortise this PhIS of RM247 million by 31 December 2019. This significantly impacted the Group's earnings, resulting in a deficit of RM149 million for the financial year.

In addition, Pharmaniaga was impacted by the global recall of Ranitidine, which incurred a total cost of RM9.4 million.

However, we are confident that our strong operational performance will allow us to deliver sustained results. Testament to this, our earnings before interest, taxation, depreciation and amortisation for the year stood at RM131 million.

PhIS

## OPERATIONAL HIGHLIGHTS

Ensuring that we meet the requirements of our clientele is a foremost priority for the Group. We have upheld our track record of excellence in products and services on a consistent basis. We are privileged to note that this is reflected by the trust placed in us by MOH for our concession business. Pharmaniaga is honoured to continue serving MOH under the new contract. We will strive to serve the nation's healthcare needs to the best of our ability, as we have done over the past decade.

Demonstrating our capabilities, we recorded a 15% increase in sales of products under the Approved Products Purchase List (APPL). Tapping on our efficiency and cost effectiveness, we secured new clientele under the Ministry of Education (MOE). We also supply selected medicines, medical devices and disposable items to the Ministry of Defence and Lembaga Tabung Haji.

With a view to diversify and expand our logistics and distribution business, we are building up our capabilities in pharmaceutical-grade logistics and supply chain management. The private sector remains a key growth area and as a result of our


dedicated efforts, Pharmaniaga secured our first One-Stop Centre solution which includes central procurement, storage and distribution services to Avisena Specialist Hospital and Avisena Women's and Children's Specialist Hospital.

We are committed to delivering on our promises to clients in a timely and efficient manner. Reflecting this, we achieved 99.6% compliance to all performance standards as required under the concession agreement, fulfilling 700,000 order lines. Valuable client feedback has enabled us to consistently maintain our excellent performance. To this end, we conducted Customer Satisfaction Surveys with MOH and teaching hospitals under MOE, as well as clients within the private sector. Across the board, the majority of respondents provided 'Good' ratings. Similarly, our dialogue sessions with State Health Departments throughout the nation saw highly positive results, where 98% of respondents rated us as 'Excellent' and 'Good'.

In order to ensure the long-term sustainability of our business, new products need to be continually developed. We have more than 60 highly skilled employees focused on developing new and innovative products, well-aligned with consumer demand. Currently, the team is working on formulation and analysis of more than 100 products which will contribute to the growth of the Group. In 2019, we obtained local registration approval for close to 25 new pharmaceutical products, bringing our total to over 180 registration approvals across more than 15 countries.

The release of new products into the market remains on track with the commercialisation of lyophilised products from our state-of-the-art and European Union (EU) certified plant in Puchong, Selangor. As the only small volume injectable plant with lyophilised technology in Malaysia, Pharmaniaga is gearing up with more products to further enhance our portfolio.

Pharmaniaga introduced several over the counter (OTC) products including the Actimol range and One Q Gummy which were well-received by the market, while we continued to promote existing key products. This included our natural sweetener, SweetRoyale Stevia, which aims to encourage Malaysians to lead healthier lifestyles. The product continues to be in high demand in the market, driven by initiatives to scale up brand visibility and increase our reach across distribution channels.

Similarly, our innovative wound care management range Bio Collagen saw strong growth, resulting from strategic marketing initiatives and engagement activities to broaden our market base and enhance awareness.

To increase accessibility to affordable healthcare for Malaysians, we initiated pilot projects with retail petroleum companies. This has enabled us to provide OTC products at petrol stations, offering greater convenience to consumers.

With overseas markets as a key pillar of growth for the Group, we progressed further on the international front. Our Indonesian listed logistics and distribution subsidiary, PT Millennium Pharmacon International Tbk (MPI) and manufacturing arm, PT Errita Pharma (Errita) delivered consistent performance leveraging on opportunities in the market. With a total of 32 branches across the nation, MPI recorded a 15% increase in sales with all product categories contributing to this growth, particularly the ethical, medical and OTC segments.

# ACTING GROUP MANAGING DIRECTOR'S REVIEW

This was supported by good growth in private hospitals, pharmaceutical wholesalers, sub-distributors, as well as pharmacies. The synergy between our Indonesian operations has enabled Errita to capitalise on MPI's distribution network to penetrate the local market, while MPI gained from our own product portfolios offered by Errita. Leveraging on our presence in Indonesia, we have also successfully penetrated the local market with our own Malaysian-made Citrex range of products.

Beyond the region, we have engaged a well-established agency to market our products in EU and Latin America, which holds strong prospects for growth. We are currently on track for product registration and commercialisation by 2021.

On the digital front, we have embarked on an aggressive digital marketing strategy to expand the reach for our community pharmacy business under the RoyalePharma brand, resulting in consistent growth. Various sales channels enabled consumers to easily purchase products conveniently via our website www.royalepharma.com as well as popular e-commerce platforms such as Lazada and Shopee.

## COMPLIANCE CULTURE

Applying best practices in all that we do allows us to deliver the best to our clientele. This forms the basis of our steadfast drive to ensure full compliance with relevant standards and requirements, enabling the Group to raise the bar in meeting benchmarks for the pharmaceutical industry.

Our unwavering focus on prioritising strong corporate governance and regulatory effectiveness enabled the Group to attain ISO 37001: 2016 Anti-Bribery Management Systems certification for our subsidiary, Pharmaniaga Logistics Sdn Bhd during the year. This is further testament to the ethical and transparent policies which drive our organisational culture, aligned with international standards.

As a result of our dedicated efforts, we maintained Good Distribution Practices (GDP), as reflected by the approval granted by the National Pharmaceutical Regulatory Agency for our Bukit Raja, Juru, Kuching and Kota Kinabalu facilities to undertake cold chain activities. We also completed audits by SIRIM QAS International Sdn Bhd for Good Distribution Practices for Medical Devices, retaining our Zero Non-Conformance Record. In addition, we successfully passed the Pharmacist Type A License Audit conducted by State Pharmacy Enforcement at all our RoyalePharma outlets.

Our commitment extends to our overseas subsidiaries, as the Group successfully received GDP certification for all of MPI's 32 branches as well as for its central warehouse. This complies with the regulations of the Indonesian authority for pharmaceutical wholesalers, *Badan Pengawasan Obat dan Makanan*.

Pharmacovigilance is fundamental to the pharmaceutical sector, providing assurance on product safety which is of utmost priority for the Group. To further strengthen the product safety measures we have in place, we created a pharmacovigilance unit to oversee and manage all relevant areas, from addressing complaints and queries to conducting reviews and training workshops.

**OUR UNWAVERING FOCUS ON PRIORITISING STRONG CORPORATE GOVERNANCE AND REGULATORY EFFECTIVENESS ENABLED THE GROUP TO ATTAIN ISO 37001: 2016 ANTI-BRIBERY MANAGEMENT SYSTEMS CERTIFICATION**

Maintaining our high level of service, we continued to adhere to ISO 18295-1:2017 Customer Contact Centre requirements. This saw the Group's Customer Care Department successfully complete a Surveillance Audit by SIRIM QAS International Sdn Bhd. We are the only pharmaceutical company in Malaysia to attain this certification.

The steady implementation of our *Do It Right* (DIR) approach is aimed at instilling the right set of values in our people, which is integral to ensure the best in quality of our products and services. With a view towards inculcating the core tenets of DIR amongst our workforce, we organised a wide range of initiatives including knowledge sharing sessions, contests and training workshops, among others. This year we also emphasised physical health via a series of sporting events and activities.

All of these efforts were focused on embedding the six dimensions of cultural excellence set forth by the International Society for Pharmaceutical Engineering to inspire our workforce and drive performance. Our DIR culture was integrated in our Indonesian operations as well, as we launched the *Do It Right First Time* campaign in this market for the second year.

## NURTURING TALENTS

Creating a pool of capable, skilled talent is essential to the sustainable and long-term growth of the Group. With this in mind, our talent development and employee engagement strategies allow the Group to cultivate performance-driven talent. Moreover, it enables us to do our part in supporting the nation's development by providing opportunities for Malaysia's youth to unlock their potential.

To realise our growth aspirations, we encourage the development of key emotional intelligence skills of leadership, patience, empathy, effective communication and strong negotiation abilities amongst our employees.

We have implemented various training and development initiatives, including nurturing young Malaysians under the Professional Training and Education for Graduating Entrepreneurs (PROTÉGÉ) programme, which aims to equip university graduates with practical experience and prepare them to enter the workforce. This year, we accepted close to 70 participants comprising the second batch of trainees for PROTÉGÉ. Over 160 trainees have benefitted from the programme since it was established.

As part of our efforts to empower young Malaysians, our Book Prize Award and Convocation Award recognises deserving undergraduate students at major local universities.

We care for the wellbeing of our people. To further reinforce this, during the year we introduced enhanced benefits for our employees, which include health screening for women and influenza vaccination.

## PROMISING FUTURE

The ongoing COVID-19 pandemic remains at the forefront as the healthcare sector globally strives to contain the disease. While the challenging environment is expected to persist, we are always prepared to adapt to changing dynamics in the healthcare sector.

# ACTING GROUP MANAGING DIRECTOR'S REVIEW

In terms of our operations, our logistics and distribution segment has been running at full force during the various stages of Movement Control Order (MCO) that have been enforced nationwide, to ensure minimal disruption to the healthcare personnel serving the public. As for our manufacturing segment, the 50% restriction in terms of the number of personnel, that was in place during the early stages of the MCO saw us refocusing our full capacity on stocks that were in higher demand and those that were required more urgently. The Group undertook all operational activities in strict adherence with temperature monitoring, social distancing and sanitisation requirements.

Moreover, we are also conscious of the changes required in terms of our sales and marketing operations. Contactless sales activities allowed our employees to leverage on technology to continue our business operations.

As for back office operations, employees were furnished with laptops to facilitate working from home. Our early adoption technological advances in all areas of operations including online ordering, online supply chain system, online financials and online banking has further helped minimise disruption to our operations.

Beyond COVID-19, we are optimistic that Pharmaniaga's solid foundation coupled with new areas of growth that we have embarked upon, will propel the Group over the long-term. Underpinning this is our firm commitment to serve the needs and meet the exacting standards of our clientele.

Given the fact that the PhIS amortisation has been fully recognised, our earnings will no longer be affected by PhIS. With renewed resolve to enhance value for our shareholders, we will continue to strengthen our operational capabilities to drive productivity and efficiency.

Moving forward, there are opportunities ahead that bode well for the Group. In particular, the extension by MOH of Pharmaniaga's services for the provision of medicines and medical supplies to MOH facilities as well as the new logistics and distribution contract.

We are honoured by the Government's confidence in Pharmaniaga, which is certainly testament to the Group's proven track record over the years. We will continue to uphold our high standards of service in line with the prescribed Key Performance Indicators. Beyond this, we are ready to participate in Government tenders as well as opportunities in the private sector and international markets.

Looking ahead in 2020, we have allocated capital expenditure of approximately RM60 million for the financial year. This will mainly go towards upgrading of manufacturing equipment and expansion of warehouses. This is aligned with our key strategic thrusts to facilitate the increase in the number of products under the APPL and to improve efficiency through greater order fulfilment, flexibility and inventory transparency across sales channels. In line with this, we have established more than five strategically located storage facilities to date and are looking to increase this capacity in the next three years.

With our well-ingrained motto *Passion for Patients*, the health and wellbeing of consumers are vital for the Group. The ongoing expansion of our product portfolio enables us to cater to healthcare requirements, led by our intensive research and development initiatives, with a pipeline of products well on-track towards our objective of offering more than 100 new products by 2024.

Along with this, as part of our aim to be a Global Halal Pharmaceutical Provider, we have successfully received Halal certification for more than 150 products to date and are set to attain certification for over 30 products in 2020.

**PHARMANIAGA'S SOLID FOUNDATION COUPLED WITH NEW AREAS OF GROWTH THAT WE HAVE EMBARKED ON WILL PROPEL THE GROUP OVER THE LONG-TERM**

Plans are also in place to expand our SweetRoyale Stevia natural sweetener product range. We aim to offer consumers this beneficial product in the form of tablets and drops in 2020, supporting the needs of Malaysians by promoting a healthy lifestyle.

Pharmaniaga is proud to be one of MOH's partners in providing affordable Hepatitis C treatment to more patients in Malaysia. Previously, the cost of treatment was as high as RM300,000. Now, this can be obtained for a fraction of the cost at over 80 Government hospitals and clinics. Moving forward, the Group is registering a new chemical entity for the treatment by working closely with MOH, Drugs for Neglected Diseases Initiative (DNDi), as well as with one of the largest international manufacturers of pharmaceutical products. This will be Pharmaniaga's first innovation product that will increase accessibility to affordable treatment for Hepatitis C patients.

Our foray into the emerging field of medical devices is making steady progress. Our project to equip the teaching hospital of Hospital Universiti Malaysia Sabah is set to be a revenue contributor for the next three years, along with provision of warranty management services for additional existing projects.

In the international arena, we made progress in our aim to build up our global presence. We remain focused on reinforcing our foothold in Indonesia by accelerating our business activities in the market, particularly as we continue to expand our branch network and diversify product categories. The Group is also progressing steadily in our aim to expand our global presence in the EU and Latin America.

Demonstrating the fact that Pharmaniaga's trusted reputation is gaining global recognition, a number of international companies in Malaysia have engaged the Group to explore potential collaborations. This is certainly encouraging and we will be able to leverage on our 25 years of logistics and distribution experience as well as internationally certified PIC/S GMP compliant manufacturing facilities.

We are pleased to share in the following pages of this report, the key activities and highlights for the Group during the year. These are indeed positive indicators of the Group's journey and our targets ahead.

With strategic plans firmly in place allowing the Group to capitalise on viable opportunities in the healthcare sector, we are confident that the Group will achieve sustainable growth over the long-term.

Building on our strengths, we are committed to propel the Group forward into this new decade with grit and determination to realise our aspirations and enhance value for our shareholders.

As always, Pharmaniaga's progress would not have materialised without the strong support and steadfast dedication of the management team and employees, who contributed greatly to the Group's achievements. We express our gratitude for their efforts.

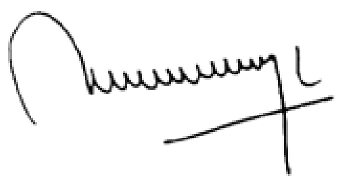
On behalf of the Group, I would like to express our heartfelt appreciation to our former Directors, Encik Mohd Suffian Haji Haron, Encik Izzat Othman, Encik Fahmy Ismail and Tan Sri Dato' Seri Dr. Haji Mohd Ismail Merican for their huge contributions to Pharmaniaga during their respective tenures and wish them well in their journey ahead.

As we move forward, we are pleased to welcome Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.), Dato' Mohd Zahir Zahur Hussein, Datuk Koo Hock Fee and Dr. Salmah Bahri as our new board members.


I would also like to take this opportunity to express our profound gratitude to Dato' Farshila Emran, our former Group Managing Director for her immense contribution to Pharmaniaga.

As a leader, she has led us through a period of steady growth and change and has been central to our various achievements. We wish her every success in her future endeavours.

Finally, our deepest appreciation to our clientele, business partners, suppliers, stakeholders, shareholders and relevant approving authorities for their continued trust in the Group.



**MOHAMED IQBAL ABDUL RAHMAN**
Acting Group Managing Director


# OPERATIONS REVIEW



**MANUFACTURING**
pg. **52**

**LOGISTICS & DISTRIBUTION**
pg. **58**

**INDONESIA OPERATIONS**
pg. **64**

OPERATIONS REVIEW
# MANUFACTURING

## KEY DEVELOPMENTS

**RM3 MILLION**
cost saving initiatives

Close to
**10 PRODUCTS**
newly registered

**Leveraging on our proven capabilities to deliver high-quality products that resonate with evolving healthcare needs, our Manufacturing Division is a key pillar for the Group. Coupled with our drive to tap into the strong prospects of the global Halal industry, the Division registered a profit before tax of RM38 million.**

## OUR OPERATIONS

As a leading manufacturer within the healthcare industry, our manufacturing capacity, operational efficiency and quality assurance are the cornerstones of our growth and success. Despite additional manufacturers supplying the public sector and heightened competition in the private sector in the year under review, our established track record enabled us to remain in good stead as a trusted partner to the Government of Malaysia and clientele in the private sector.

Our steadfast commitment to our mission to develop and deliver high quality, innovative and cost competitive generic healthcare products through outstanding customer service has transformed our organisational culture and optimised our manufacturing processes. This in turn allows us to unlock value for our clients and ensure that we deliver top quality products in a seamless and cost-effective manner.

In serving the needs of our clients, we implement best practices throughout our operations via the Pharmaniaga Integrated Quality System (PIQS). An ongoing programme since 2016, the PIQS aims to harmonise the manufacturing quality systems across our manufacturing sites through a robust regulatory compliance platform. This provides better economies of scale and greater synergies, optimises operational efficiencies and bulk purchasing of raw materials, ensures ease of market access for export activities and facilitates cross-referencing between sites. To date, 10 topics under the PIQS have been identified and approved, seven of which have already been standardised.

Further reflecting our high level of standards, we adhere to Good Manufacturing Practices (GMP). Our commitment to maintaining our manufacturing license for our manufacturing sites in accordance with GMP regulations extends to all aspects of our operations. Accordingly, audits were conducted at our manufacturing sites by both our internal compliance team and by the national regulatory agency resulting in a positive audit.

## OPERATIONS REVIEW

# MANUFACTURING

As part of our drive to enhance operational efficiency and maintain lean operations, we appointed alternative vendors for raw and packaging materials, while maintaining our stringent quality requirements. Coupled with prudent management of operating expenses, these measures generated total cost savings of RM3 million during the year.

Guided by our motto, *Passion for Patients*, Pharmaniaga is committed to contributing relevant products that have a positive impact on the healthcare sector, especially in helping to combat prevailing health challenges faced by Malaysians. The introduction of our natural sweetener, SweetRoyale Stevia, has been well-received since it was first launched in 2017. We have raised awareness on the benefits of this product, which is all the more important in promoting a healthy lifestyle amongst Malaysians. Currently, we are developing an additional range of products for SweetRoyale Stevia to provide consumers with a range of convenient options.

Our wound care management product range, Bio Collagen, continued to see growing market acceptance,driven by our strategic engagement activities including participating in medical conferences, exhibitions and workshops.

The Group also embarked on plans to introduce our Bio Collagen product range to selected Asian countries. We are currently undergoing product registration with local authorities and have engaged with local distributors to explore potential collaboration and business opportunities. We are confident that we will be able to tap into the strong prospects in these markets.

In the international arena, we have progressed in our aim to expand our global presence by appointing a well-established agency to market our products in the European Union (EU) and Latin America.

Supporting our efforts to develop a foothold in the EU, we are currently working towards serialisation of our products. This will subsequently enable us to track and trace products throughout the supply chain for global serialisation requirements. Over the

long-term, this will ensure alignment with international benchmarks for quality assurance and transparency, including the EU Falsified Medicines Directive, which requires all medicinal products entering the trade bloc to be serialised to prevent falsification of medicine in EU countries.

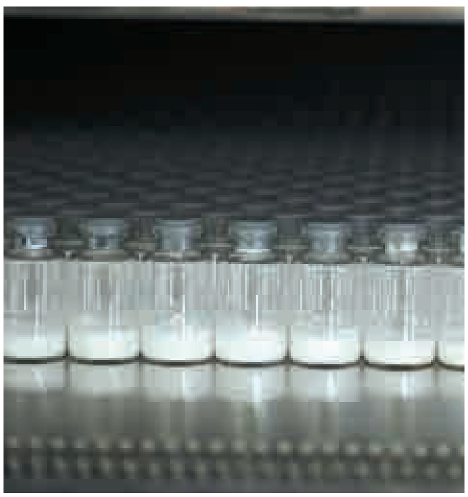
## RESEARCH & DEVELOPMENT

Our focused Research and Development (R&D) efforts have enabled the Group to expand our portfolio with value-added products that are well-aligned with consumer demand. Testament to our R&D capabilities, in 2019 we obtained local registration approval for close to 25 new products. This comprises close to 300 total registered products to date. We have also grown our global footprint with nearly 10 new products gaining registration approval during the year, bringing our total to over 180 registration approvals across more than 15 countries.

In tandem, we submitted an additional 15 applications to the National Pharmaceutical Regulatory Agency (NPRA) which are under review for approval. To date, we have submitted close to 100 dossiers to the NPRA.

We are on track to achieving our goal of approval for more than 100 new products by 2024. To this end, our ongoing engagement with two international contract research organisations is supportive of our efforts to realise this milestone and we are actively monitoring their progress.

Plans for the release of new products remain on track, with the commercialisation of lyophilised products from our state-of-the-art EU-certified plant in Puchong, Selangor. As the only small volume injectable plant with lyophilised technology in Malaysia, we are gearing up with more products to further enhance our portfolio. The year also saw five new in-house pharmaceutical products successfully obtain local registration.



**WE OBTAINED LOCAL REGISTRATION APPROVAL FOR CLOSE TO 25 NEW PRODUCTS. THIS COMPRISES CLOSE TO 300 TOTAL REGISTERED PRODUCTS TO DATE**

## OPERATIONS REVIEW

# MANUFACTURING


**FIVE OF OUR MANUFACTURING FACILITIES IN MALAYSIA ARE HALAL COMPLIANT AND MORE THAN 150 OF OUR PRODUCTS ARE HALAL CERTIFIED**

Pharmaniaga introduced several over the counter products including the Actimol range and One Q Gummy which were well-received by the market, while we continued to promote existing key products. This included our natural sweetener, SweetRoyale Stevia.

We are committed to providing products of the highest quality in line with stringent safety and efficacy requirements. To ascertain that our generic products are clinically interchangeable with innovator products, we conducted bioequivalence studies on a continuous basis. As a result, close to 70 products to date have attained bioequivalent status, with more underway.

As part of our commitment to product safety, and mindful of the growing importance of pharmacovigilance, we established a dedicated unit tasked with investigating complaints, managing queries and performing periodic reviews. Equipped with a comprehensive in-house database and an acute understanding of global requirements, this unit also carries out training programmes on a regular basis to increase awareness of pharmacovigilance across the Group.


The year saw further emphasis on reinforcing our position in the global Halal industry. In line with our vision to become a leading Global Halal Pharmaceutical Provider, five of our manufacturing facilities in Malaysia are Halal compliant and more than 150 of our products are Halal certified.

To accelerate the growth of the Group, we are mindful of the need to continuously provide relevant products that cater to the varied needs of the healthcare market. Targeted to commence in 2020, we are confident that this pipeline will enable us to tap into new market segments with strong opportunities.

Aside from manufacturing our own pharmaceutical products, we are pursuing contract manufacturing activities with numerous multinational corporations. Negotiations with other international corporations are currently ongoing.

In the year under review, Pharmaniaga voluntarily recalled Ranitidine tablets from the market due to the presence of N-Nitrosodimethylamine (NDMA), a common impurity found in nitrosamines, which is often present in low quantities in certain air pollutants, food and beverage as a result of certain manufacturing processes. According to the International Agency for Research on Cancer, NDMA can increase the risk of cancer in the long run. However, the risk of getting cancer due to the short-term use of Ranitidine (which may contain NDMA) is very low.

Authorities such as the United States Food & Drug Authority and the European Medicine Agency have found that NDMA impurities may be generated during the processing of Ranitidine's Active Pharmaceutical Ingredient (API). To date, all APIs used by local manufacturers, including Pharmaniaga are made by foreign manufacturers.

As one of the suppliers of Ranitidine Tablets to the Ministry of Health, we proactively undertook tests for samples of API and finished products at an independent laboratory prior to the notification from the National Pharmaceutical Regulatory Agency. Subsequently, Pharmaniaga opted to undertake the voluntary recall Ranitidine, incurring a total cost of RM9.4 million.

OPERATIONS REVIEW

# LOGISTICS & DISTRIBUTION

## KEY DEVELOPMENTS

**ATTAINED ISO 37001 : 2016**
ABMS Certification

**SECURED HOSPITAL UNIVERSITI MALAYSIA SABAH EQUIPPING PROJECT**
worth RM144 million

**PEROZIN**
available at major pharmacy chains across Malaysia

**>300 ALLIANCE**
Members across Malaysia


**The Logistics and Distribution Division is firmly committed to upholding its role in ensuring the smooth and efficient supply of pharmaceutical products to our clientele in both the government and private sector businesses. We are honoured by the extension awarded by the Ministry of Health (MOH) for the provision of medicines and medical supplies to MOH facilities for an interim period of 25 months, commencing 1 December 2019 to 31 December 2021. We also secured the contract with MOH to continue providing logistics and distribution services for a period of five years ending 31 December 2024.**

**However, the Division's financial performance was impacted by the recognition of the remaining unamortised cost for the Pharmacy Information System (PhIS) amounting to RM247 million, which had to be fully recognised in the year under review. Due to this, the Division registered a loss before zakat and taxation of RM220 million. This is a one-off non-cash item and since PhIS is now fully recognised, it will no longer have a bearing on the Group's profitability in the future.**

## DOMESTIC BUSINESS OPERATIONS

Fulfilling the needs of our customers is paramount, particularly as we serve MOH facilities across the nation via our concession business. Sales of products under the Approved Products Purchase List (APPL) increased to RM1.4 billion in 2019, a 15% increase from RM1.2 billion in the previous year. This was supported by an upsurge in orders from MOH in the final quarter of 2019, leading to the conclusion of the concession tenure.

To date, MOH has finalised close to 750 products under the 2017-2019 APPL Product Review. This involves the engagement of close to 90 contract suppliers, of which close to 30 are under the Bumiputera Vendor Development Programme.

Building on our strong track record with MOH, we secured new customers within the Ministry of Education under the APPL. In addition to Hospital Universiti Sains Malaysia, Pusat Perubatan Universiti Malaya and Hospital Canselor Tuanku Muhriz Universiti Kebangsaan Malaysia, our clientele now includes Universiti Putra Malaysia, Hospital Pengajar Universiti Putra Malaysia, Universiti Sains Islam Malaysia and Universiti Malaysia Sabah. Along with this, we were appointed to supply selected medicines, medical devices and disposable items to the Ministry of Defence and Lembaga Tabung Haji.

In line with our commitment to excellence, we once again maintained our high standards of service by achieving 99.6% compliance to all performance standards as required under the concession agreement, with 700,000 order lines. This was accomplished despite closure of two contract suppliers as well as unavailability of certain raw materials, which we overcame by purchasing alternative materials approved by MOH.

## OPERATIONS REVIEW

# LOGISTICS & DISTRIBUTION

Conscious of the need to continuously invest in and adopt new technologies, we implemented Robotics Process Automation technology which commenced in 2018, hence succesfully interfacing with the Government's ePerolehan procurement system. This year, we expanded the technology beyond ordering to our invoicing system, enabling us to process higher volumes of delivery orders and invoice matching, further enhancing our submission and account receivables.

We are currently focused on expanding our existing warehousing capacity to improve our operating and cost efficiency. To date, we have established more than five storage facilities strategically located in the Central and Northern regions as well as in East Malaysia, enabling us to mobilise a wide delivery network across the nation.

In keeping with our *Do It Right* approach, we maintained our single-minded focus towards best practices in corporate governance and regulatory frameworks. This enabled us to attain certification for the ISO 37001 : 2016 Anti-Bribery Management Systems in the year under review, showcasing our dedicated efforts to integrity and ethical conduct.

We are governed by strict standard operating procedures, with audits conducted on a regular basis, both internally and by external certification bodies. Due to our stringent compliance with Good Distribution Practices, we received approval from the National Pharmaceutical Regulatory Agency (NPRA) to handle specialised cold chain products at our warehouses in Bukit Raja, Juru, Kuching and Kota Kinabalu. At Bukit Raja, this included lot release of a number of biological products such as vaccines, with zero failures recorded.


**WE ATTAINED CERTIFICATION FOR ISO 37001: 2016 ANTI-BRIBERY MANAGEMENT SYSTEMS, SHOWCASING OUR DEDICATED EFFORTS TO INTEGRITY AND ETHICAL CONDUCT**

Furthermore, we underwent Good Distribution Practice for Medical Devices audits by SIRIM QAS International Sdn Bhd across multiple sites, for which we successfully upheld our Zero Non-Conformance Record, enabling us to retain our certifications. In addition, we successfully passed the Pharmacist Type A License Audit conducted by State Pharmacy Enforcement at all our RoyalePharma outlets.

Demonstrating our adherence to ISO 18295 : 2017 Customer Contact Centre standards, our Customer Care Department underwent a successful Surveillance Audit by SIRIM QAS International Sdn Bhd, where we achieved a Zero Non-Conformity Report and Zero Opportunity for Improvement. To reinforce the capabilities of our people, all Customer Care employees underwent certification for the Certified Contact Centre Professional programme. This was aimed at equipping front-liners with relevant skill sets to improve interaction with customers and enhance customer service best practices.

The private sector remains a core pillar for the Group with vast prospects. In line with this, we secured our first One-Stop Centre solution which includes central procurement, storage and distribution services to Avisena Specialist Hospital and Avisena Women's and Children's Specialist Hospital. This is indeed a milestone for the Group, marking the first private hospitals that we have engaged under this programme.

As one of the manufacturing pioneers of generic pharmaceuticals in the nation, our portfolio of products registered a five-year compounded annual growth rate of 9%. Key drivers were our anti-infective products, Co-Amoxiclav and Cephalexin, as well as our analgesic product range Actimol, which registered strong growth in sales. Other therapeutic segments of cough and cold, dermatological, antihistamine and cardiovascular products also performed well. Testament to the strength of our portfolio, our leading products such as Aspira and Iqnyde command an average market share of 63% and 71% respectively and are among the most preferred in clinics and pharmacies in Malaysia.

Consistent with the expansion of our private sector business, we launched new products for private hospitals, namely Bupivacaine, Furosemide, Phenytoin and Labetalol. Aimed at meeting prevalent healthcare needs of consumers, these additions are expected to contribute to our growth.

## OPERATIONS REVIEW
# LOGISTICS & DISTRIBUTION

To further expand our services into the private sector, we signed an agreement with two new principals for patented products for the treatment of lung cancer and diabetes. Other well-received products by the market are Aftamed and Gengigel, with Government hospitals and dental clinics as key customers.

In our consumer healthcare segment, our anchor brands saw encouraging growth. This was supported by new product launches in our Actimol range comprising 500mg, 650mg and Menstrual variants. Other launches included Citrex Flexo and Gingko Biloba products, while third party launches of Perozin and the One Q Gummy range further boosted our revenue.

The positive performance of our portfolio was propelled by strategic marketing initiatives, which proved effective even amidst the highly competitive environment. Our strategic thrusts were aimed at expanding our market base, seeking out new avenues for growth and raising awareness of key products. Activities included participation in conferences, exhibitions and seminars across the nation, as well as small group discussions involving healthcare professionals, industry participants and key stakeholders from both public and private sectors, along with consumer engagement and sampling activities.

Prospects for the medical devices industry remain bright, having been identified as a high-growth area under the 11$^{th}$ Malaysia Plan. We are leveraging on opportunities in this emerging segment, anchored by our efforts to equip the Teaching Hospital of Hospital Universiti Malaysia Sabah, which is set to grow our revenue for this business over the next three years. This is accompanied by the provision of warranty management services for existing projects, namely MOH's Medical Equipment Enhancement Tenure Programme under Quantum Medical Systems, as well as for Women & Children Specialist Hospital Kuala Lumpur.

Further to our objective to strengthen our potential via new avenues of business, we signed a Memorandum of Understanding with a Bumiputera-owned company for their patented mobile dental chair project, STÜHL. An innovative concept with the commercial prototype recently completed, we expect this to offer good prospects over the long-term, as the project has already received encouraging interest from MOH and several other parties.

PLEASE SCAN ME HERE

Our Community Pharmacy business under the RoyalePharma brand has seen consistent growth, particularly as our digital marketing initiatives continued to play a significant role in expanding our reach. This was accompanied by various sales channels enabling consumers to easily purchase products in a convenient manner via our website www.royalepharma.com as well as popular e-commerce platforms such as Lazada and Shopee.

**DIGITAL MARKETING INITIATIVES CONTINUED TO PLAY A SIGNIFICANT ROLE IN EXPANDING OUR REACH**

As we strive to expand our brand presence, we established our Mini RoyalePharma programme to tap into the retail networks of petrol stations. We currently have outlets at two petrol stations strategically located along major highways, stocked with convenient and selected health and wellness products for consumers on the go. We also leveraged on the Group's established relationship with long-standing clientele to open

RoyalePharma Health & Awareness booths at a number of corporate functions. This enabled us to showcase our Citrex range, as well as to provide free healthcare consultation by trained RoyalePharma pharmacists.

Supported by our increased warehouse capacity, RoyalePharma further strengthened its strategic partnerships with independent pharmacies via its RoyalePharma Alliance Programme, expanding its Alliance network to more than 300 members throughout Malaysia in 2019. Apart from benefitting from greater economies of scale, members under the Alliance programme are able to participate in value-added activities such as training courses.

Meanwhile, our Long-Term Medication programme with corporate clientele continues to be well-utilised in enabling patients to obtain medication for non-communicable diseases such as diabetes and hypertension, amongst others. To date, more than 160 registered patients have benefitted from this initiative.

Through our partnership with Watsons, one of the largest healthcare and beauty chains in Asia, we continued to expand the brand presence of Perozin, a joint pain reliever made with natural ingredients such as rosemary, ginger and peppermint. Perozin is now available at more than 300 Watsons stores nationwide.

During the year, we appointed the sole distributor for our Actimol range of products in Malaysia. Through this partnership, Actimol is now present at major pharmacy chains across the nation. Plans are underway to expand to convenience stores and other pharmacy chains as well as to intensify brand visibility via digital marketing and promotional activities.

OPERATIONS REVIEW

# INDONESIA OPERATIONS


## KEY DEVELOPMENTS

**RM1 MILLION**
cost saving initiatives

**GDP CERTIFICATION**
for 32 branches and Central Warehouse

**15 PRODUCTS**
newly registered

**5 NEW PRINCIPALS**


**As we strive to scale up our global presence, our Indonesian operations are integral, enabling us to tap into the immense potential of this growing market.**

**We expanded our capabilities in Indonesia in 2019. Despite consistent growth by the Group's logistics and distribution arm, PT Millennium Pharmacon International Tbk (MPI), and manufacturing plant PT Errita Pharma (Errita), the results were impacted by higher borrowing costs. Apart from this, MPI was further affected by delayed payments by government hospitals, which is a challenge currently impacting the healthcare industry in Indonesia. This resulted in our Indonesia operations posting a loss before taxation of RM1.8 million.**

## LOGISTICS

MPI, our Indonesian listed subsidiary, registered net sales of IDR2.7 trillion (RM795.1 million), representing a 15% increase compared with IDR2.4 trillion (RM676.1 million) in the previous year. This was due to higher contributions across all product categories, with the ethical, medical disposables and over the counter (OTC) segments recording 6%, 14% and 7% growth respectively. We also achieved significant sales growth in our private hospitals, pharmaceutical wholesalers, sub-distributors, as well as pharmacies segments.

In line with our business development objectives, we progressed in our drive to expand our product portfolio by engaging five new principals for the production and marketing of OTC and herbal-based products.

In order to strengthen our growth, we are conscious of the need to undertake strategic marketing activities for MPI's own products alongside third party products. To this end, we established a dedicated unit focused on marketing and sales of products produced by Errita, as well as products from our Malaysian operations. This resulted in higher sales of MPI's own products which include the Citrex range, Gengigel and products manufactured by Errita, paving the way for higher contributions from our own products.

This was complemented by the launch of a new product, Citrex Gummy Fish Oil. Part of our Citrex line, this beneficial product contains DHA, which supports healthy growth in the development of children.

Further driving our sales growth was the opening of our latest branch in Manado, expanding our network to a total of 32 branches across the country.

## OPERATIONS REVIEW

# INDONESIA OPERATIONS

Additionally, we commenced registration for selected wound care management products for the Indonesian market. Concurrently, we have engaged with Indonesia's Ministry of Health to explore opportunities for this innovative product range and have embarked on the necessary registration process which is currently underway.

We are committed to espousing a strict compliance culture aligned with international benchmarks. As a result of our dedicated efforts and in keeping with the requirements of *Badan Pengawasan Obat dan Makanan* (BPOM), the Indonesian regulatory body for all pharmaceutical wholesalers, we have successfully attained GDP certification for all our 32 branches across Indonesia and Central Warehouse in Jakarta.

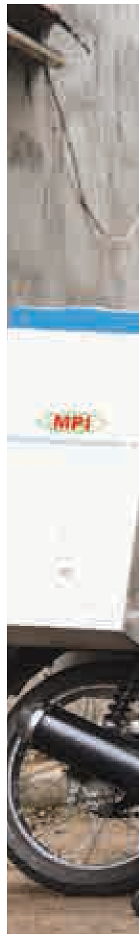
In order to boost our operational efficiency and service levels, we invested in new technologies. We utilise the analytics platform *Qliksense* as a performance dashboard and *Colek Bayar* for monitoring of collection activities. Additionally, we provided our principals with online access to our sales and inventory system and collaborated with them to manage sales discounts via *webdiscount*. We also implemented Robotic Process Automation technology to streamline higher volumes of ordering processing and facilitate trade, particularly targeted for modern market segments.

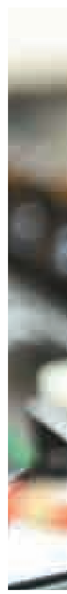
Apart from this, to further strengthen organisational efficiencies and accommodate for future expansion, we relocated our MPI headquarters to a larger office space in a more strategic area. We are confident that this will enable us to scale up our capabilities and improve productivity.

**WE EFFECTIVELY STRENGTHENED BUSINESS SYNERGIES BY APPOINTING MPI AS THE SOLE DISTRIBUTOR FOR ERRITA PRODUCTS IN JAVA ISLAND, THUS REDUCING DEPENDENCY ON THIRD PARTY DISTRIBUTORS**

### MANUFACTURING

With Indonesia's growing population and the ongoing rollout of its universal healthcare programme, there are strong prospects to be tapped in the country's healthcare sector. Given our proven track record and expertise as a trusted manufacturer of high-quality healthcare products, the Group is well-positioned to leverage on these opportunities and serve the country's healthcare needs.



Building on this positive momentum, in 2019 we completed the successful commercialisation of 15 new products for therapeutic segments including antipyretic, hypolipidemic and antifungal. In tandem, we submitted an additional pipeline of close to 15 products to BPOM which are under review for approval.

Pharmaniaga's *Do It Right* (DIR) organisational culture spans across the full scope of our operations, both in Malaysia and Indonesia. Following through from the launch of our DIR campaign in 2018, we rolled out our second Do It Right First Time (DIRFT) Campaign this year in Errita. Initiatives included training sessions, an Anti-Corruption Pledge, health-related activities such as an annual medical check-up for all staff, weekly jogging sessions and walkabouts, as well as donations to staff affected by natural disasters.

Testament to our commitment to best practices, we upheld the standards and procedures put in place by our Quality Management System. This enabled us to retain our ISO 9001 : 2015 and ISO 14001 : 2015 certifications.

As part of our continuous drive to enhance the plant's manufacturing capacity, we invested in three new strip cartoning lines that improved the efficiency of packing activities that previously had to be done manually. Along with this, we installed high-performance liquid chromatography equipment, which increased our testing capacity for finished goods and raw materials. We are also working with two companies on contract manufacturing for the production of probiotic products and Streptokinase.

Our ongoing cost optimisation measures enabled us to generate RM1 million in savings. Key initiatives during the year focused on driving efficiencies in raw material purchases and manufacturing processes.

Given that MPI is the nationwide distributor of Errita's products, we effectively strengthened business synergies by appointing MPI as the sole distributor for Errita products in Java Island, thus reducing dependency on third party distributors. Outside of Java Island, Errita collaborates with 14 other distributors apart from MPI.

Reflecting our objective to tap on growing global demand for Halal certified pharmaceutical products, Errita embarked on the process of ensuring readiness for Halal Assurance System 2300 certification, which is accorded by the regulatory authority, *Lembaga Pengkajian Pangan, Obat-obatan dan Kosmetika Majelis Ulama Indonesia*. In line with this, a number of our employees underwent training and successfully obtained the certification to equip them with essential skills and knowledge towards Halal certification for Errita products.

# CORPORATE VALUES

## @ PHARMANIAGA

**Our motto *Passion for Patients* mirrors the values and beliefs that shape our culture. It inspires and keeps us focused on our goals, while positively impacting the way we conduct business. Thus, as Malaysia's largest integrated pharmaceutical group, we are focused on empowering and bettering the communities in which we operate.**

# CORPORATE VALUES

### *MAJLIS IKRAR BEBAS RASUAH*

To intensify our efforts in fighting corruption, Pharmaniaga and its subsidiaries signed the Malaysian Anti-Corruption Commission's Corruption Free Pledge on 1 March 2019.

### KKCK GRAND PRIZE GIVING CEREMONY

Pharmaniaga became the main sponsor of a local hit TV drama, *Kan Ku Kejar Cinta Kamu* (KKCK.) This product placement activity showcased anchor products such as Perozin, SweetRoyale Stevia and Citrex Vitamin C.

A "Tonton, Beli dan Menang KKCK" contest was held throughout the 28 episodes of the drama. Prizes included a gold bar, a smartphone, travel packages and the grand prize of a Perodua Bezza which was presented during the Lola Baba Kids Festival 2019 at Setia City Convention Centre SCCC.

### CITREX IFTAR RAMADAN

Ramadan is made more meaningful for 250 orphans from the Klang Valley, namely; Pusat Jagaan Cahaya Kasih Bestari, Persatuan Kebajikan Anak-Anak Yatim dan Asnaf Baitul Nurrawdah, Rumah Nur Sakinah, Pertubuhan Kebajikan dan Penjagaan Nur Hidayah and Rumah Titian Kasih Al Inayah as Pharmaniaga celebrated the joy of Ramadan with them at an iftar celebration held in Shah Alam.

Held in collaboration with Citrex, the orphans, along with their teachers and guardians were treated to a delicious iftar meal and received contributions such as duit raya, school bags, sporting attire and Citrex Vitamin C from the Company.


***SUMBANGAN RAYA ATM***

In appreciation of our soldiers' bravery in defending our country, Pharmaniaga donated RM100,000.00 to the Angkatan Tentera Malaysia.

**FREE DENTAL EXAMINATIONS**

In collaboration with *Ikatan Dokter Gigi Anak Indonesia*, MPI donated 300 toothpaste tubes to orphans and children with special needs as well as provided free dental examinations during the Car Free Day at Sudirman street in Jakarta.

**QURBAN WITH PT ERRITA PHARMA**

PT Errita Pharma celebrated *Hari Raya Aidiladha* by carrying out *Qurban* activity with its employees as well as distributed the meat to the surrounding community.

**CONTRIBUTION TO *TABUNG PAHLAWAN***

Pharmaniaga contributed RM100,000 to *Tabung Pahlawan* as an appreciation of our Malaysian Armed Forces. The cheque was presented by Dato' Farshila Emran, Group Managing Director to YABhg. Tun Dr. Siti Hasmah Binti Mohd Ali, the wife of Prime Minister.

# CORPORATE VALUES

### *AIDILFITRI* CELEBRATION WITH KYT

Pharmaniaga celebrated *Aidifitri* with 100 special needs children from *Kau Yang Teristimewa* (KYT) at Bukit Jelutong, Shah Alam.

Co-sponsored with KYT, a Non-Governmental Organisation established to provide moral support to families with special needs children, this event was a good platform to connect the community to these children and family members as well as to better understand their conditions.

### *PROGRAM KESELAMATAN & PENCEGAHAN KEBAKARAN*

In collaboration with the Fire and Rescue Department of Selangor (Bomba), Pharmaniaga organised *Program Keselamatan dan Pencegahan Kebakaran Pharmaniaga* to boost fire safety and prevention awareness amongst its employees.

The main showcase during this event was the demonstration by Bomba and Pharmaniaga's own Emergency Response Team (ERT). Established in 2005, it has 416 active members located at all sites nationwide.

The programme was officiated by YS PKPjB Norazam Khamis, Director of Selangor State Fire and Rescue Department and attended by over 200 Pharmaniaga employees.

### PHARMANIAGA PHARMACIST DAY

In conjunction with World Pharmacists Day 2019, Pharmaniaga celebrated 45 registered pharmacists and 6 Provisionally Registered Pharmacists within the Company.

The event was organised to strengthen awareness in Code of Ethics, inculcate the *"Do It Right Always"* culture, team work and team spirit amongst pharmacists within the Group.

## MOPI CONFERENCE & DINNER

Pharmaniaga is proud to be a part of Malaysian Organisation of Pharmaceutical Industries (MOPI) Conference and dinner.

Our employees took to the stage to perform a special dance routine at the dinner which was officiated by YBhg Datuk Dr. Noor Hisham bin Abdullah, Director-General of Ministry of Health Malaysia.



## BAKRI

PT Millennium Pharmacon International TBK, our subsidiary in Jakarta, Indonesia launched a sustainability initiative, BAKRI which means *'Bawa Kantong Sendiri'*. Implemented at their 32 branches located throughout Indonesia, BAKRI is an excellent initiative to help reduce the usage of single-use plastic bags by employees.

## HEPATITIS B & C FREE SCREENING

Supported by Pharmaniaga and Drugs for Neglected Diseases initiative (DNDi), Hospital Ampang conducted free Hepatitis B and C screenings. Opened to the public, this initiative will provide the public with 'test-and treat' opportunity as there is an estimated 400,000 people infected with the disease in Malaysia.

# CORPORATE VALUES

## RAMADAN WITH ROHINGYA REFUGEES

Pharmaniaga employees shared the *barakah* of Ramadan by organising a charity event for the Rohingya Muslim community residing in Selayang, Selangor.

In collaboration with Al-Ikhlas School, a UNHCR-registered school for the refugees' children, 100 food packs and 150 children's mini food packs were distributed to the needy families.

## RAK PRIHATIN

Idaman Pharma Manufacturing Sdn Bhd Seri Iskandar launched their very own *'Rak Prihatin'* programme in conjunction with the holy month of Ramadan.

Through this initiative, employees were able to help the less fortunate by providing basic necessities such as rice, sugar and cooking oil amongst others.


## DONATION TO UMA BAWANG LONGHOUSE FIRE VICTIMS

Sympathetic of the fate that befell the Uma Bawang longhouse fire victims at Sg. Asap, Belaga, Sarawak, Pharmaniaga donated items such as medicines, food and other basic necessities to the victims and their families.

## VAN FOR ORPHANS

Pharmaniaga donated a van to Persatuan Kebajikan Anak-Anak Yatim dan Asnaf Baitul Nurrawdah at Taman Bukit Setiawangsa. The van would be used by the orphanage to transport the children there to schools and other activities.

## CONTRIBUTION TO HKL CITY RUN

Pharmaniaga presented a RM25,000 donation to the Kelab Sukan Hospital Kuala Lumpur (HKL) at the *'HKL City Run 2019'*.


## FACE MASK DISTRIBUTION

Pharmaniaga's subsidiary in Indonesia, PT Millennium Pharmacon International TBK distributed face masks to the surrounding community to combat the haze calamity. This effort was carried out by employees from MPI branches in Jambi and Pakanbaru with the Ikatan Apoteker Indonesia (IAI).

# CORPORATE VALUES

### NIOSH DEFENSIVE DRIVING COURSE

Employees participated in the Defensive Driving course organised by the National Institute of Occupational Safety and Health (NIOSH). The course emphasised on several key elements of driving such as proper safety, skills and driving techniques.

### UPIN & IPIN MOVIE PREVIEW

Pharmaniaga celebrated over 150 underprivileged children from four welfare homes at the exclusive screening of the animated film *"Upin & Ipin: Keris Siamang Tunggal"* before it aired in theatres nationwide.

### *GOTONG ROYONG*

As part of our sustainability initiative, employees at Idaman Pharma Manufacturing Sdn Bhd in Sungai Petani, Kedah spent a day cleaning up their surrounding area. We believe that a clean work environment increases employees' focus and productivity.


### PROGRAM TUISYEN PINTAR HARAPAN

We continue our efforts to empower youths by sponsoring *Program Tuisyen Pintar Harapan* at six MARA Junior Science Colleges (MRSM) throughout the year. In total, 34 schools and 618 students benefitted from this programme championed by the Ministry of Rural Development.

### *BUBUR LAMBUK* DISTRIBUTION TO MEDIA

In conjunction with the holy month of Ramadan, Pharmaniaga distributed *bubur lambuk* to members of the media including BERNAMA, RTM and Media Prima, amongst others.

### HERO RAMADAN 3.0

Through the programme Hero Ramadan 3.0, Pharmaniaga distributed iftar food packs to Emergency and Trauma Departments at 11 government hospitals located within the Klang Valley.

# CORPORATE VALUES

### *JALINAN KASIH SYAWAL*

The Group channelled contributions to the Orang Asli community of Kampung Lalang, Simpang Pulai, Perak and students of SK Lemoi in Cameron Highlands. Donations included basic necessities and *duit raya*, amongst others.

### HYGIENE KITS FOR ORANG ASLI @GUA MUSANG

We collaborated with the National Disaster Management Agency (NADMA) to provide the Orang Asli of Kampung Kuala Koh, Poh Lebir, Gua Musang, Kelantan whom were affected by the measles outbreak with 100 hygiene kits.

### PHARMARAYA CELEBRATION

Pharmaniaga celebrated *Aidilfitri* with its employees in Shah Alam. With the theme *'Beraya di Kampung Pharmaniaga'*, employees came dressed in their best traditional outfits.

## CONTRIBUTION TO ORKESTRA SIMFONIK WINDS SERI PUTERI

We contributed RM50,000 to Orkestra Simfonik Winds Seri Puteri (SP Winds) at SP Winds Flourishes Gala and Charity Night 2019. The concert was held to raise funds to enable the group to perform at the 30th Australian International Music Festival (AIMF 2019), Sydney Australia.

SP Winds made Malaysia proud by winning the gold medal at AIMF 2019.


## GUA WANG BURMA

Idaman Pharma Manufacturing Sdn Bhd Sungai Petani organised *'Xplorasi Gua Wang Burma'* at Perlis State Park in Perlis. A total of 95 employees participated in this activity.

## KSRBR DODGEBALL

Kelab Sukan & Rekreasi Bukit Raja organised the inaugural dodgeball tournament in collaboration with Do It Right Committee. The tournament successfully fostered engagement and teamwork amongst employees.

# CORPORATE VALUES


## QURBAN AT PHARMANIAGA

Pharmaniaga celebrated *Aidiladha* with eight orphanages and charity homes within Klang Valley. 10 cows were slaughtered for this auspicious occasion.

## PROGRAM PAK 21

Pharmaniaga is proud to be the sponsor of 'Speaking Nation: *Pembelajaran Abad Ke-21* (PAK21)' programme, an initiative to hone the talents and capabilities of students organised by the Ministry of Education Malaysia and Yayasan Pesona founded by Datuk Aznil Hj. Nawawi. The year-long programme received tremendous response from students and teachers alike. A total of 11 sessions were organised, reaching to about 7,000 students throughout Malaysia.


## MERDEKA FUN RUN

In conjunction with the National Day Celebration, Idaman Pharma Manufacturing Sdn Bhd, Sungai Petani organised a Merdeka Fun Run for its employees. This activity enhanced their motivation and teamwork spirit.

## MERDEKA PARADE 2019

Pharmaniaga once again participated in the national day parade in Putrajaya. The theme for the 62nd Independence Day celebration was *'Sayangi Malaysiaku: Malaysia Bersih'*.

## BEACH CLEAN-UP

Idaman Pharma Manufacturing Sdn Bhd in Seri Iskandar, Perak organised a beach clean-up at Teluk Senangin. The event was jointly organised with Jabatan Kesihatan, Persekitaran dan Perkhidmatan Bandar Zon 3, Majlis Perbandaran Manjung and participated by more than 50 employees.

## XCHANGE RECYCLING CAMPAIGN

As part of our ongoing PharmaGREEN activity, Pharmaniaga organised two Xchange Recycling Campaigns throughout the year. The campaign enabled employees and the surrounding communities to exchange 20 used plastic bottles for one bottle of hand sanitiser. Close to 25,000 bottles were collected.

# CORPORATE VALUES

## FACE MASK DISTRIBUTION TO PDRM

The haze badly affected our country in 2019 with many areas recorded polluted air levels or was at the brink of breaching the "unhealthy" mark. Due to this worrying state, we distributed N95 face masks to our traffic police officers at the Shah Alam Traffic Police Headquarters and Kuala Lumpur Traffic Police Headquarters.

## MERDEKA & HARI MALAYSIA CELEBRATION

In conjunction with Merdeka and Hari Malaysia, we organised various activities including traditional games and a fun walk for our employees.


## MANGROVE PLANTING

Idaman Pharma Manufacturing Sdn Bhd, Sungai Petani organised a Mangrove Planting & Clean Up Day at Sungai Merbok, Kedah. This programme was held as part of their Quality, Environment, Safety, Health & Halal Week and was participated by more than 30 employees.

## FLOOD RELIEF 2019

Pharmaniaga donated 500 sets of First Aid and children's kits to be distributed to affected flood victims in Kelantan via IMARET Flood Relief 2019. IMARET distributed the kits at the temporary relocation centre at SK Sri Rantau Panjang 2, Kelantan.

## KANWORK CHARITY HI-TEA 2019

Pharmaniaga donated RM10, 000 to *Persatuan Kanser Network Selangor dan Wilayah Persekutuan* (KanWork) during KanWork Charity Hi-Tea 2019. The contribution would fund KanWork's activities in helping cancer patients and caregivers.


## CLEAN-UP OF CITARUM RIVER

Our team at PT. Errita Pharma, in Bandung, Indonesia collaborated with the Indonesian Army to clean up the Citarum riverbank via the programme 'PT Errita Pharma Peduli Citarum Harum bersama Tentara Nasional Indonesia'.

# GOVERNANCE

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

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

## CORPORATE GOVERNANCE APPROACH

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

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

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

Given that the Board forms the pivot of good corporate governance, the Board steers efforts to promote meaningful and thoughtful application of good corporate governance practices. The Group regularly reviews its corporate governance arrangements and practices to ascertain if they reflect prevailing norms, market dynamics, emerging trends, developments in the regulatory tapestry and evolving stakeholder expectations.

## SUMMARY OF CORPORATE GOVERNANCE PRACTICES

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

Pharmaniaga has applied all the Practices encapsulated in MCCG for the financial year ended 31 December 2019 except:

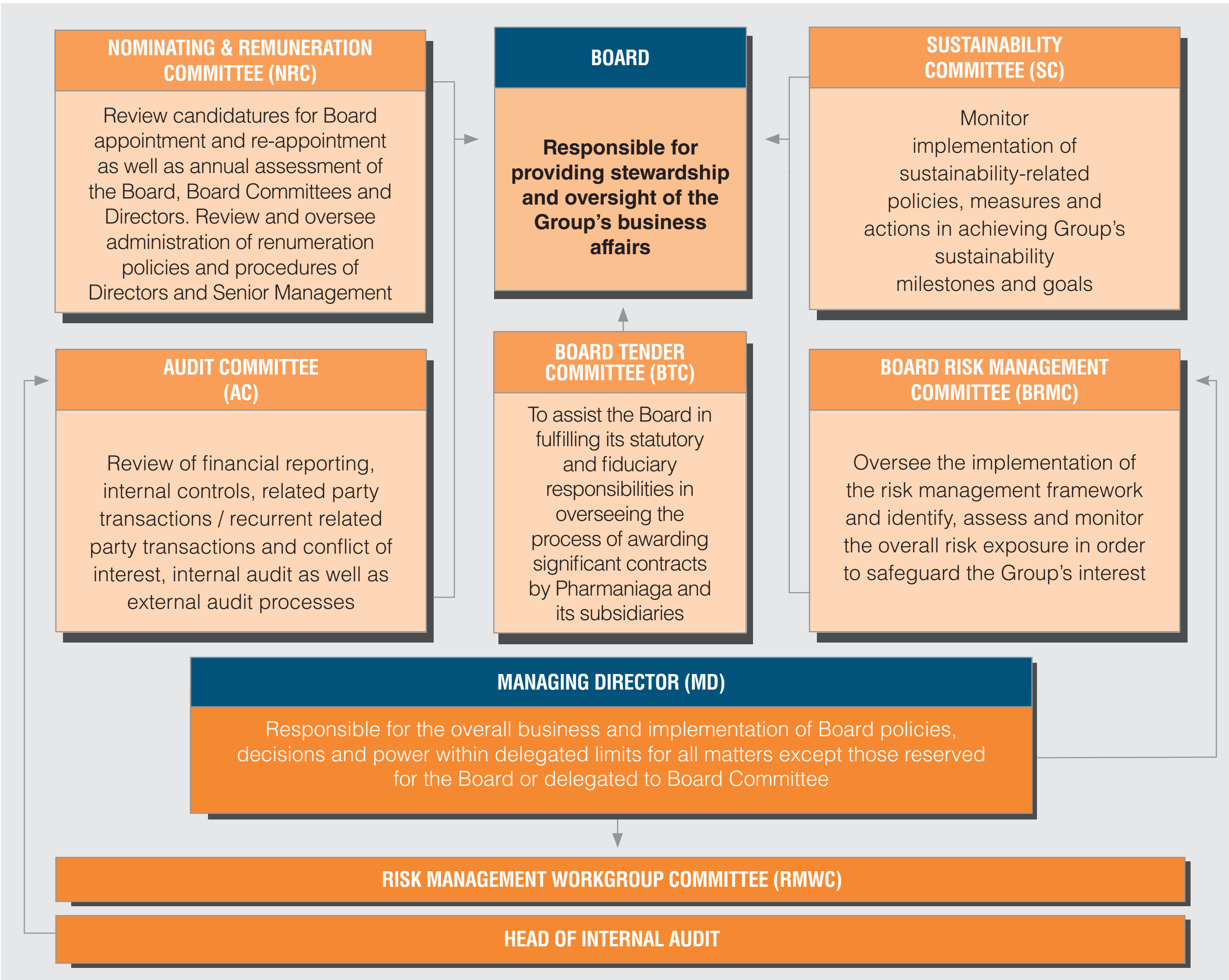
- **Practice 6.1** : Remuneration Policy for Directors and Senior Management;
- **Practice 7.2** : Disclosure of the top five Senior Management personnel's remuneration on a named basis in bands of RM50,000; and
- **Practice 12.3** : Remote shareholders' participation.

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

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

## BOARD'S ROLES AND RESPONSIBILITIES

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



# CORPORATE GOVERNANCE OVERVIEW STATEMENT

As depicted in the illustration, the Board is assisted by five Board Committees, in its oversight function with reference to specific responsibility areas. To assist the Board in fulfilling its statutory and fiduciary responsibilities in overseeing the procurement process involving significant contracts awarded by the Company, the Board had on 19 May 2020 established Board Tender Committee. Thus far, no meetings held as at the date of this Annual Report. However, it should be noted that the Board retains collective oversight over the Board Committees at all times and the final decision on all matters rest with the entire Board. These Board Committees have been constituted with clear terms of reference and they are actively engaged to ensure that the Group is in adherence with good corporate governance.

During the financial year under review, there were many improvements made by the Board in order to promote good corporate governance. These include, combining the functions of Nominating and Remuneration Committee as well as the establishment of Board Risk Management Committee on 16 May 2019. Besides that, the Board has also formalised a Board Directorship Policy on 16 August 2019, which serves as a formal commitment for the Company and the Board Members regarding their directorship and tenure. The Board Directorship Policy is made available on Pharmaniaga's website and was last reviewed on 16 August 2019.

The Directors allocate sufficient time to discharge their responsibilities effectively and attend Board and Board Committee meetings with sufficient regularity to deliberate on matters under their purview. Board meetings are held at quarterly intervals with additional meetings convened for particular matters, when necessary. As part of the Company's digital transformation, effective 1 January 2019, all Board and Committee's papers are distributed electronically at least 5 business days before a scheduled meeting to ensure Directors' are well informed/prepared and have the opportunity to seek additional information, should such a need arise.

During the year, the Board has deliberated on business strategies and critical issues concerning Pharmaniaga Group, including business plan, annual budget, significant acquisitions, financial results as well as key performance indicators. The attendance of individual Directors at Board and Board Committees meetings during the financial year ended 31 December 2019 is outlined below:

### 1 January 2019 – 31 July 2019

| Director | Board | AC | NC | RC | SC |
|---|---|---|---|---|---|
| **Group Managing Director** | | | | | |
| Dato' Farshila Emran* | 3/3 | – | – | – | – |
| **Senior Independent Non-Executive Director** | | | | | |
| Mohd Suffian Haji Haron** | 3/3 | 2/2 | 3/3 | 3/3 | 1/1 |
| **Independent Non-Executive Directors** | | | | | |
| Izzat Othman*** | 3/3 | 2/2 | 3/3 | 3/3 | – |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | 3/3 | 2/2 | – | – | 1/1 |
| Fahmy Ismail*** | 3/3 | – | – | – | – |

***Notes:***

* *Group Managing Director until 31 March 2020*

** *Board Member until 28 April 2020*

*** *Board Member until 31 July 2019*

### 1 August 2019 – 31 December 2019

| Director | Board | AC | NRC | SC | BRMC |
|---|---|---|---|---|---|
| **Group Managing Director** | | | | | |
| Dato' Farshila Emran* | 3/3 | – | – | – | – |
| **Independent Non-Executive Chairman** | | | | | |
| Datuk (Dr.) Hafsah Hashim** | 3/3 | – | – | – | – |
| **Senior Independent Non-Executive Director** | | | | | |
| Mohd Suffian Haji Haron*** | 3/3 | 3/3 | 2/2 | 1/1 | 2/2 |
| **Independent Non-Executive Directors** | | | | | |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | 3/3 | 3/3 | 2/2 | – | 2/2 |
| Tan Sri Dato' Seri Dr. Haji Mohamed Ismail Merican**** | 0/1 | – | 0/1 | 0/1 | – |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)** | 2/3 | 2/3 | 2/2 | 1/1 | 2/2 |
| Dato' Mohd Zahir Zahur Hussain** | 3/3 | 3/3 | – | 1/1 | 2/2 |
| **Non-Independent Non-Executive Director** | | | | | |
| Datuk Koo Hock Fee** | 3/3 | – | – | – | – |

Board/Board Committee Chairman    Member

***Notes:***

**    Group Managing Director until 31 March 2020*
***   Appointed as Board Member on 17 July 2019*
****  Board Member until 28 April 2020*
***** Appointed as Board Member on 17 July 2019 until 17 September 2019*

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

In performing their duties, all Directors have access to advice and services of a suitably qualified Company Secretaries. The Company Secretaries acts as a corporate governance counsel and ensures good information flow within the Board, Board Committees and Senior Management.

The Company Secretaries attends all meetings of the Board and Board Committees and advises the Directors on the requirements encapsulated in the Company's Constitution and legislative promulgations such as the Companies Act 2016, Capital Markets and Services Act 2007 (Amendment 2012) MMLR. Management provides Directors with complete, adequate and timely information prior to meetings and on an ongoing basis to enable them to make informed decisions.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

As Integrity is a core value of the Group, the Board reviewed and revised the Terms of Reference of the Board Committees during the financial year to ensure consistency with the needs of the Group and to be in line with the MMLR and the Malaysian Code of Corporate Governance. This is also to ensure its relevance for good corporate governance practices within the Group. The revised Terms of Reference are published on Pharmaniaga's website.

## BOARD COMPOSITION

On 17 July 2019, three (3) new Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director were appointed to the Board. Subsequently, Dr. Salmah Bahri was appointed to the Board on 1 January 2020. With the new appointments and resignation of Encik Mohd Suffian Haji Haron effective 28 April 2020, there are six (6) Directors on the Board, five (5) of which are independent.

The composition of the Independent Directors on the Board is in excess of the MMLR one third. The balance between Independent Non-Executive and Non-Independent Non-Executive together with the support from the Acting Managing Director and Senior Management is to ensure that there is an effective and fair representation for the shareholders, including minority shareholders. The Board strives to ensure that it has an appropriate mix of skills, qualifications and experience to discharge its roles and responsibilities effectively based on the Group's nature of business. The Board, from time to time undertakes a review of its composition to determine areas of strengths and improvement opportunities.

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

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

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

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

## REMUNERATION

To attract and retain high calibre Directors and Senior Management in order to run the business successfully, Pharmaniaga aims to set remuneration at levels which are sufficient, taking into consideration all relevant factors including the function, workload and responsibilities involved. The Board acknowledge the importance to motivate quality people to lead, manage and serve the Company in a competitive environment. Hence, the appropriate level of remuneration is essential to enhance the long-term interests of the stakeholders and shareholders.

For this purpose, the NRC which comprises of Independent Non-Executive Directors implement policies and procedures on remuneration of the Board and Senior Management.

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

The details for the remuneration of Directors for the financial year ended 31 December 2019 for the Group are as follows:

| Directors | Fees | | Salaries | Bonuses | EPF | Benefit in Kind | Meeting Allowances | Total Group |
|---|---|---|---|---|---|---|---|---|
| | Company | Group | | | | | | |
| | RM | RM | RM | RM | RM | RM | RM | RM |
| **Group Managing Director** | | | | | | | | |
| Dato' Farshila Emran* | – | 30,000 | 1,020,000 | 170,000 | 187,500 | 37,200 | – | **1,444,700** |
| **Non-Executive Directors** | | | | | | | | |
| Datuk (Dr.) Hafsah Hashim** | 77,688 | 77,688 | – | – | – | – | 4,500 | **82,188** |
| Mohd Suffian Haji Haron (Senior Independent)*** | 153,484 | 153,484 | – | – | – | – | 24,750 | **178,234** |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | 114,681 | 114,681 | – | – | – | – | 15,250 | **129,931** |
| Izzat Othman**** | 77,783 | 151,783 | – | – | – | – | 9,000 | **160,783** |
| Fahmy Ismail**** | 66,309 | 66,309 | – | – | – | – | 6,000 | **72,309** |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)** | 48,879 | 48,879 | – | – | – | – | 10,000 | **58,879** |
| Tan Sri Dato' Seri Dr. Haji Mohamed Ismail Merican***** | 15,379 | 15,379 | – | – | – | – | – | **15,379** |
| Dato' Mohd Zahir Zahur Hussain** | 53,435 | 53,435 | – | – | – | – | 10,500 | **63,935** |
| Datuk Koo Hock Fee** | 41,129 | 41,129 | – | – | – | – | 3,000 | **44,129** |
| **Total** | **648,767** | **752,767** | **1,020,000** | **170,000** | **187,500** | **37,200** | **83,000** | **2,250,467** |

***Notes:***

** Group Managing Director until 31 March 2020*

*** Appointed as Board Member on 17 July 2019*

**** Board Member until 28 April 2020*

***** Board Member until 31 July 2019*

****** Appointed as Board Member on 17 July 2019 until 17 September 2019*

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## AUDIT COMMITTEE

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

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

## BOARD RISK MANAGEMENT COMMITTEE

The BRMC consists exclusively of the Independent Non-Executive Directors. The composition of the BRMC, its duties and responsibilities can be found in the Corporate Governance Report. The BRMC undertakes to provide oversight on the risk management framework of the Group to assist the Board in ensuring that the risk exposures and outcomes affecting the Group are affectively managed and addressed by the Board. More specifically, the BRMC is responsible for formulating policies and frameworks to identify, monitor, manage and control material risks impacting the Group.

## RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

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

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

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

## COMMUNICATION WITH STAKEHOLDERS

Investor Relations is an essential part of Pharmaniaga's Corporate Governance practise which ensure that all stakeholders, including the domestic and international community receive relevant, timely and comprehensive information about the Group.

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

The Group's investor relations activities are aimed at developing and maintaining a positive relationship with all the stakeholders through active two-way communication to improve disclosure and transparency. Key contract person of the Company is as follows:

**Norai'ni Mohamed Ali**
Group Chief Financial Officer
Tel : +603-3342 9999
E-mail : noraini.aliani@pharmaniaga.com

## GROUP CORPORATE WEBSITE

Pharmaniaga Group's corporate website www.pharmaniaga.com provides comprehensive and easy access to the latest information about the Group. Information available on the corporate website includes Pharmaniaga's corporate profile, individual profiles of Directors and Senior Management, financial results, annual report and corporate news, among others. Additionally, information on the Group's corporate governance structure and framework is available on the corporate website. Stakeholders can also obtain regulatory announcements made by Pharmaniaga to Bursa Malaysia on the Group corporate website.

**NOTICE OF ANNUAL GENERAL MEETING**

AGM will be held online at **https://tiih.online**

**Date : 20 July 2020**
**Venue: Royale Chulan Damansara**
**Petaling Jaya, Selangor**

## CONDUCT OF GENERAL MEETINGS

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

In light of the current Coronavirus Disease (COVID-19) pandemic, Pharmaniaga has accelerated its initiative to implement remote shareholders' participation and online remote voting at the 22nd AGM by leveraging on technology in accordance with Section 327(1) and (2) of the Companies Act 2016. Shareholders who attend the 22nd AGM via remote participation will also be able to submit any questions during the AGM for the Company to respond. Shareholders are encouraged to take advantage of the said technology to participate in the AGM.


# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## CORPORATE GOVERNANCE FOCUS AND INITIATIVES

Corporate governance continued to be imperative for the Group in the year 2019 against the backdrop of regulatory changes in the domestic corporate governance realm and a relatively challenging economic environment.

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

Corporate governance areas which gained heightened attention from the Board during the financial year ended 31 December 2019 are as follows:

### Independence of the Board

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

### The Company's Constitution

The Constitution of Pharmaniaga was adopted in FY2019 in place of its Memorandum and Articles of Association pursuant to the approval of shareholders at the 21st AGM. The Constitution regulates the manner in which Pharmaniaga is governed.

### Board Effectiveness Evaluation

MCCG stipulates that a formal and objective annual evaluation should be conducted to determine the effectiveness of the Board. To achieve this, during the year under review the Board conducted Board Effectiveness Evaluation (Self-Assessment Exercise). Questionnaires were circulated to the Directors to gather significant insight and feedback. The Board will use the recommendations highlighted by the NRC in the Summary Report of Board Effectiveness Evaluation (Self-Assessment Exercise) for 2019 as part of an ongoing process to enhance Board effectiveness and efficiency.

### Gender Diversity Policy

During the year, the Board has established the Diversity Gender Policy, aimed to encourage gender diversity on the Board, with emphasis on merits-based selection. The Board is mindful that any gender representation shall be for the interest of the Company.

## Professional Development of Directors

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

The list of training programmes attended by the Board members during the year under review are outlined below. The NRC noted that Fahmy Ismail who resigned on 31 July 2019 and Tan Sri Dato' Seri Dr. Haji Mohamed Ismail Merican who resigned on 17 September 2019, was not able to attend any programme during his tenure due to exceptional circumstances.

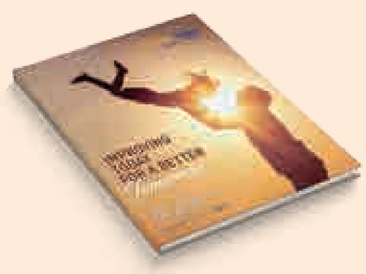
| Name | Programme Title & Organiser | Date |
|---|---|---|
| **Independent Non-Executive Chairman**<br>Datuk (Dr.) Hafsah Hashim<br>*(Appointed as Board Member on 17 July 2019)* | • MFRS 17: Understanding the Impacts & Consequences organised by Ernst & Young | 29 July 2019 |
| | • MACC Briefing by SIRIM | 2 October 2019 |
| | • Financial Institutes Directors' Education Programme (Insurance) – Module B by ICLIF Leadership & Governance Centre | 22 – 25 October 2019 |
| | • Boustead/LTAT Group-wide Training Programme on Corporate Governance | 29 October 2019 |
| **Group Managing Director**<br>Dato' Farshila Emran<br>*(Board Member until 31 March 2020)* | • 'Good to Great' Leadership programme organised by *Do It Right* Committee Pharmaniaga Berhad | 18 – 19 July 2019 |
| | • Future-Proofing Business in the Digital Age – SSM National Conference 2019 | 23 – 24 July 2019 |
| | • Critical Thinking Masterclass by Ayden Group | 26 – 27 July 2019 |
| | • Boustead/LTAT Group-wide Training Programme on Corporate Governance | 29 October 2019 |

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

| Name | Programme Title & Organiser | Date |
|---|---|---|
| **Senior Independent Non-Executive Director**<br><br>Mohd Suffian Haji Haron<br>*(Board Member until 28 April 2020)* | • Bursa Malaysia Diversity Xperience – The Board "Agender"<br><br>• Boustead/LTAT Group-wide Training Programme on Corporate Governance | 2 October 2019<br><br>29 October 2019 |
| **Independent Non-Executive Directors**<br><br>Izzat Othman<br>*(Board Member until 31 July 2019)* | • Half day Seminar - "LET'S GET REAL" ON ANTI-BRIBERY by ICLIF Leadership & Governance Centre | 1 March 2019 |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | • CORPORATE LIABILITY PROVISION What it is & the associated implications to the Board of Directors, Partners, Top Management and other Personnel in the event of prosecution by Aram Global Sdn Bhd<br><br>• Boustead/LTAT Group-wide Training Programme on Corporate Governance | 4 July 2019<br><br>29 October 2019 |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd)<br>*(Appointed as Board Member on 17 July 2019)* | • The New Section 17A On Corporate Liability in The Malaysian Anti-Corruption Act organised by Minority Shareholder Watchdog Group (MSWG)<br><br>• Boustead/LTAT Group-wide Training Programme on Corporate Governance | 15 October 2019<br><br>29 October 2019 |
| Dato' Mohd Zahir Zahur Hussain<br>*(Appointed as Board Member on 17 July 2019)* | • Boustead/LTAT Group-wide Training Programme on Corporate Governance | 29 October 2019 |
| **Non-Independent Non-Executive Director**<br><br>Datuk Koo Hock Fee<br>*(Appointed as Board Member on 17 July 2019)* | • International Directors Summit 2019 – Are You Steering Your Organization Towards the Right Direction organised by Institute of Corporate Directors Malaysia (ICDM) | 14 – 15 October 2019 |


## CORPORATE GOVERNANCE PRIORITIES

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



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### BOARDROOM DIVERSITY

The Board is already committed to developing a corporate culture that also embraces the aspect of gender diversity. This is reflected by the establishment of Gender Diversity Policy and the fact that the Chairman of the Board and one of the Independent Non-Executive Director on Board are females, as well as the present composition of Senior Management of the Group, more than 60% of which are women.

### SUSTAINABILITY REPORTING

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

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

**This statement on Risk Management and Internal Control is prepared in accordance with the Main Market Listing Requirement issued by Bursa Malaysia Securities Berhad (Bursa Malaysia). The statement outlines the key features of the risk management and internal control systems of the Group during the year under review.**

## RESPONSIBILITY

### THE BOARD OF DIRECTORS

The Board of Directors (the Board) acknowledges its overall responsibility in establishing a sound system of risk management and internal control as well as reviewing its adequacy and effectiveness in identifying, assessing and responding to risks to achieve the Group's objectives.

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 plays a pivotal role in providing risk oversight and determining the aggregate level and type of risk that the Group is willing to take in achieving its strategic objectives. During the year until the period of this Report, the Risk Management Committee (RMC) chaired by the Independent Director was formed on 16 May 2019. 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 RMC and accords with the guidelines for directors on internal control, the Statement on Risk Management & Internal Control: Guidelines for Directors of Public Listed Issuers.

### THE MANAGEMENT

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

The management, within the Risk Management Framework is responsible for implementing the process of identifying and assessing the risks faced by the Group, and then designing, implementing and monitoring suitable internal controls to mitigate and control these risks. The Board, through RMC 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 (AC) to complement the Terms of Reference of the AC, 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 Workgroup Committee (RMWC), is entrusted with the responsibility of implementing and maintaining the Group's Risk Management Framework. The RMWC is headed by the Group 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 & 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 including continuous expansion of non-concession business and explore new business opportunities to reduce reliance on concession business;
     - Monitor the results of key performance indicators; and
     - Ensure good corporate governance.

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

- **Risk Analysis & Measurement**

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

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

- **Risk Reporting**

  The Group's Risk Management Framework provides for regular review and reporting. For the financial year 2019, the RMWC met twice, on 16 April 2019 and 31 October 2019. At the meetings, the RMWC assessed the overall risk profile and appetite of the Group, identified the significant risks, updated the Risk Register and prepared the action plans for mitigation. Risk assessment reports comprising the Action Plans on Significant Risk and Risk Register were tabled to the Board on 16 May 2019 and 15 November 2019. In addition, the reports were submitted to the Group Internal Auditors (GIA) for an independent assessment on the adequacy and reliability of the risk management processes within the Group.

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

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

## KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

### AUDIT COMMITTEE (AC)

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

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

### GROUP INTERNAL AUDIT (GIA)

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

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

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

### CONTROL SYSTEMS & 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 & delegated authority**

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

  **i. Procurement**

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

  **ii. Regulatory Affairs & Corporate Governance**

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

- **Written policies & 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**

  Written policies are established to guide how a department or an individual within the Group works or behaves and provide guidance to employees as to what their obligations are. The policies and procedures also form part of the various management systems and are reviewed regularly and updated when necessary. Briefings and trainings are frequently held to enhance employees' awareness on the policies and procedures.

  Subsidiaries within the Group have implemented several Internationally Accredited Management Systems to standardise its management and operational processes and to further improve its efficiency. Few of our subsidiaries have been awarded with various Management System certifications, among others:-

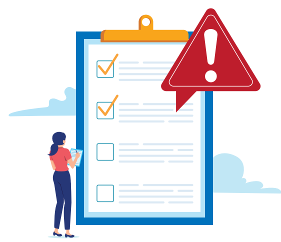
  √ Good Manufacturing Practice Certification from NPRA (Malaysia)
  √ Good Manuacturing Practice Certification from INFARMED (EU)
  √ Good Manufacturing Practice Certification from BPOM (Indonesia)
  √ Good Distribution Practice certification from NPRA
  √ Good Distribution Practice Medical Device certification by MDA
  √ ISO 13485 : 2016 Medical Devices Quality Management Systems
  √ ISO/IEC 17025 : 2017 Laboratory Quality Managements Systems
  √ ISO 9001 : 2015 Quality Management Systems
  √ ISO 37001 : 2016 Anti-Bribery Management Systems
  √ ISO 14001 : 2015 Environmental Management Systems
  √ OHSAS 18001 : 2007 Occupational Health and Safety Management Systems
  √ ISO 27001 : 2013 Information Security Management Systems
  √ ISO 18295-1 : 2017 Customer Contact Centres
  √ Halal certified products by JAKIM
  √ MESTI certification from MOH

  These certifications reflect the Group's commitment in ensuring the quality deliverables to customers, safeguards safety and health of employees as well as safeguard the environment.

  Whilst Anti-Bribery Management System certification demonstrates that we uphold on transparency and integrity in our day-to-day business activities.

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

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



- **Code of Conduct & Ethics**

  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 and Ethics 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, Gifting Policy, Donation Policy, Anti-Bribery Policy 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.

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **Strategic Business Planning, Budgeting & 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 Five-Year Business Plan together with Key Performance Indicators (KPIs) were drawn up and approved by the Board on 20 January 2020. 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 Five-Year Business Plan.

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

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

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

- **Human Resources Policies & Procedures**

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

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

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

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

- **Tender Award System**

  As part of the Group's continuous efforts to enhance transparency, coordination and control on procurement of goods and services for projects above a determined threshold, a Management Tender Committee, which comprise representative from various departments i.e. Finance, Legal and other related departments, led by the Head of Procurement was in placed to increase efficiency and ensures the effectiveness of the system of internal controls are embedded in the process of awarding tenders.

- **Insurance**

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

- **Credit Management**

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

## MONITORING

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

- **Regular Monthly Reporting**

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

- **Performance Management**

  A structured Performance Management System (PMS) which is linked to and guided by the established Key Performance Indicators (KPIs) and Key Result Areas (KRAs) parameters has been implemented. The Group adopts the "FCIO" Balance Scorecard quadrants to measure KPI achievements through the PMS:
  - Financial (F)
  - Customer (C)
  - Internal Business Process (I)
  - Organisational Learning & Growth (O)

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

- **Internal Audit Function**

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

# STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

## 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 & session with the Management**

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

- **Whistleblower Policy**

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

- **Revolution of work culture – *Do It Right***

  One of the core values of the Group is integrity by acting professionally, fairly and with better *Do It Right* work culture. This is the basis of the whole revolution of work culture that the Group has embarked since 2015. The campaign is continued with *Do It Right Always* (DIRA) for 2019 and 2020.

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

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

Throughout 2019, 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 audio announcements;

ii. dialogue session with D-Agents (working committee) to promote interactive discussion on *Do It Right* awareness;

iii. trainings and induction programmes to enhance the knowledge on internal control amongst employees;

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

v. Health Living programme; and

vi. engaging employees with community and amongst employees through activities such as mini campaigns, competitions, gatherings, Gemba Walk, Blood Donation programmes and quality meetings.

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

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

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

Such arrangements, however, do not eliminate the possibility of human error or deliberate circumvention of control procedures by employees and others. The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders' investment, the interest of stakeholders, i.e. 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 Group Managing Director and Group Chief Financial Officer, the Board is satisfied that the system of internal control was generally satisfactory. Measures are in place and continually being taken to ensure the ongoing adequacy and effectiveness of internal controls to safeguard the Group's assets and hence shareholders' investment.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the MMLR of Bursa Malaysia, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide 3 (AAPG 3) issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

This statement has been approved by the Board of Directors on 20 February 2020.

# AUDIT COMMITTEE REPORT

## MEMBERS AND MEETINGS

**A total of five meetings were held during the financial year. Details of the composition of the Committee and the attendance by each member at the Committee meetings are set as follows:**

| Name of Director | Status of Directorship | Independent | Attendance of Meetings |
|---|---|---|---|
| Dato' Mohd Zahir Zahur Hussain[1]* | Independent Non-Executive Director *(Chairman of the Committee)* | Yes | 3/3 |
| Mohd Suffian Haji Haron*** | Senior Independent Non-Executive Director | Yes | 5/5 |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | Independent Non-Executive Director | Yes | 5/5 |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)* | Independent Non-Executive Director | Yes | 2/3 |
| Izzat Othman** | Independent Non-Executive Director | Yes | 2/2 |
| Fahmy Ismail** | Non-Independent Non-Executive Director | No | 2/2 |

***Note:*** *[1]The Audit Committee Chairman's profile can be viewed on page 21 of this Annual Report.*

** Appointed as Board Member on 17 July 2019*

*** Board Member until 31 July 2019*

****Board Member until 28 April 2020*

The Audit Committee membership is in line with Paragraph 15.09 & 15.10 of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities and Malaysia Code of Corporate Governance (MCCG) Practice 8.1 & 8.2, in which;

- All members are Non-Executive Directors and majority of the members are Independent Directors;
- No alternate director is appointed as a member;
- The Chairman of the Audit Committee is a member of the Malaysian Institute of Accountants;
- The Chairman of the Audit Committee is not the Chairman of the Board; and
- None of the Committee members is a former key audit partner of the Company's external auditor.

The Audit Committee meetings were also attended by the Group Managing Director, Group Chief Financial Officer and Head of Internal Audit at the invitation of the Audit Committee Members and as and when appropriate. The Audit Committee also met with the external auditors during the year on two separate sessions, without the presence of management. The meetings have been appropriately structured with Audit Committee members receiving notices, agendas and papers sufficiently in advance of the meetings.

The Audit Committee Chairman reports to the Board on principal matters deliberated at Audit Committee meetings.

Minutes of each Audit Committee meeting are recorded and tabled for confirmation at the following meeting and subsequently presented to the Board for notation. The Audit Committee Chairman also conveys to the Board matters of significant concern as and when raised by the external auditors or internal auditors.

All members of the Audit Committee have and will continue to undertake professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules. Details of the Audit Committee members' trainings can be viewed in page 96 of this Annual Report.

## ACTIVITIES DURING THE FINANCIAL YEAR

During the year, the Audit Committee carried out its duties as set out in its Terms of Reference. The information on the Terms of Reference of the Audit Committee is available on Pharmaniaga's website, www.pharmaniaga.com. The main activities undertaken were as follows:

### Financial Reporting

1. Reviewed the quarterly unaudited financial results and audited annual financial statements of the Group to ensure compliance with the MMLR, applicable approved accounting standards and other statutory and regulatory requirements prior to recommending for approval by the Board of Directors.

2. Reviewed the impact of any changes to the accounting policies and adoption of new accounting standards as well as accounting treatments used in the financial statements.

3. Obtained assurance from the Group Chief Financial Officer that:

    - appropriate accounting policies had been adopted and applied consistently;

    - the going concern basis applied in the annual financial statements and quarterly financial statements was appropriate;

    - prudent judgements and reasonable estimates had been made in accordance with Malaysian Financial Reporting Standards (MFRSs) and International Financial Reporting Standards (IFRSs);

    - adequate processes and controls were in place for effective and efficient financial reporting and disclosures under the MFRSs, IFRSs and MMLR; and

    - the annual financial statements and the quarterly financial statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for 2019.

### External Audit

During the year, the Audit Committee together with the external auditors:

1. Reviewed 2019 audit plan and scope of work for the Group.

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

3. Reviewed the performance of external auditors, their independence and objectivity.

4. Discussed on audit reports and evaluation of the systems of the internal controls.

5. Reviewed major audit findings and reservations arising from the interim and final audits, significant accounting issues and any matter the external auditors may wish to discuss.

6. Reviewed the external auditors' management letter(s) and management response(s).

# AUDIT COMMITTEE REPORT


The Audit Committee met with the external auditors twice during the year in the absence of Management to discuss amongst others, audit issues and reservations arising from the interim and final audits.

The external auditors have assured the Audit Committee that in accordance with the terms of all relevant professional and regulatory requirements, they had been independent throughout the audit engagement for 2019.

The external auditor's non-audit service fees and the statutory audit fees are available on page 174 of this Annual Report.

## INTERNAL AUDIT

During the year, the Audit Committee:

1. Reviewed with the internal auditors their annual audit plan which is risk-based and focused on significant risk areas to ensure adequate scope and comprehensive coverage over the activities of the Group.

2. Reviewed and deliberated internal audit reports and to monitor/follow-up on remedial action.

3. Reviewed the corrective actions taken by the Management in addressing and resolving issues as well as ensuring that all key issues were adequately addressed on a timely basis.

4. Reviewed the adequacy of resource requirements and competencies of staff within Group Internal Audit to execute the annual audit plan and the results of the work.

5. Reviewed the effectiveness of internal audit processes and the resources allocated to Group Internal Audit.

6. Reviewed the Audit Committee Report, Corporate Governance Overview Statement and Statement on Risk Management and Internal Control and recommended to the Board for approval prior to their inclusion in the Company's annual report.

## RELATED PARTY TRANSACTIONS

1. 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.

2. Monitored the related party transactions entered by the Company and the Group pursuant to the shareholders' mandate obtained at the Annual General Meeting held on 23 April 2019.

3. Reviewed the related party transactions entered by the Company and the Group as well as the disclosure and the procedures relating to related party transactions.

4. Reviewed the Framework and Procedures on related party transactions in order for the said framework to be abreast of the provisions of the MMLR.

## INTERNAL AUDIT FUNCTION

The Audit Committee is assisted by Group Internal Audit (GIA) of Boustead Holdings Berhad (the Immediate Holding Company of Pharmaniaga Berhad). GIA's principal responsibility is to evaluate and improve the effectiveness of risk management, control and governance processes of Pharmaniaga Berhad and its Subsidiaries and recommend improvements to the processes where required. This is accomplished through a systematic and disciplined approach of regular reviews and appraisals of the management, control and governance processes based on the review plan that is approved by the Audit Committee annually.

GIA function adopts a risk-based methodology in planning and conducting audits by focusing on key risks areas and activities that are aligned with the Group's strategic plans. GIA has also adopted internal audit standards and best practices based on the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors.

The terms of reference of GIA function are clearly spelt out in the Internal Audit Charter. GIA has operated and performed in accordance to the principles of the Charter that provides for its independence. GIA function reports directly to the Audit Committee, and is independent of the activities it audits. GIA 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.

Eight (8) internal auditors from GIA have been assigned to perform the audit on manufacturing, logistics and distributions, commercial sales & marketing, support functions and Indonesian businesses (logistics and manufacturing) during the year. The audit teams have completed and issued internal audit reports for 15 assignments based on the approved annual audit plan. The audits conducted in 2019 covered a wide range of operational areas within the Company which include review of production and inventory management, quality control, procurement and contract management, sales and marketing processes, risk management and information technology administration. The corresponding audit reports were presented to the Management Audit Committee and Audit Committee for attention, deliberation and corrective actions.

During the financial year, Group Internal Audit function had undertaken the following activities:

- Prepared the annual audit plan 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.

# AUDIT COMMITTEE REPORT

- Reported on a quarterly basis to the Management Audit Committee and Audit Committee on significant risk management, control and governance issues from the internal audit reports issued, the results of investigations and special reviews undertaken and the results of follow-up of matters reported.

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

- Conducted regular follow-up and monitoring on the implementation of recommendations made by Group Internal Audit to ensure that appropriate corrective actions are taken on a timely basis or within agreed timelines.

- Reviewed the procedures relating to related party transactions entered into by the Group to ensure that the related party transactions have been conducted on the Group's normal commercial terms and are not to the detriment of the Group's minority shareholders.

- Conducted workshops and communication sessions with the Management and operational staff on internal controls, internal audit observations and proposed action plans on the areas covered during the audit processes.

All audit work for the internal audit function during the year was conducted in-house. There were no areas of the internal audit programmes which were outsourced.

## RESOURCES & CONTINUOUS DEVELOPMENT

There are a total of 37 internal auditors in Boustead Holdings Berhad in which they are teamed based on the various divisions within the Boustead Group. For the financial year ended 31 December 2019, eight (8) internal auditors carried out the audit in Pharmaniaga Group and the total costs incurred amounted to RM356,721.80 inclusive of Sales and Service Tax (SST).

GIA continues its commitment to equip their internal auditors with adequate knowledge and proficiency. They had attended various relevant trainings and courses to enhance knowledge and proficiency as well as encouraged to take the Certified Internal Auditor (CIA) and other professional certification. As at December 2019, two (2) auditors are CIA certified whilst eight (8) are currently pursuing the CIA certification.

# STATEMENT OF DIRECTOR'S RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors take responsibility in ensuring that the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of the results and the cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

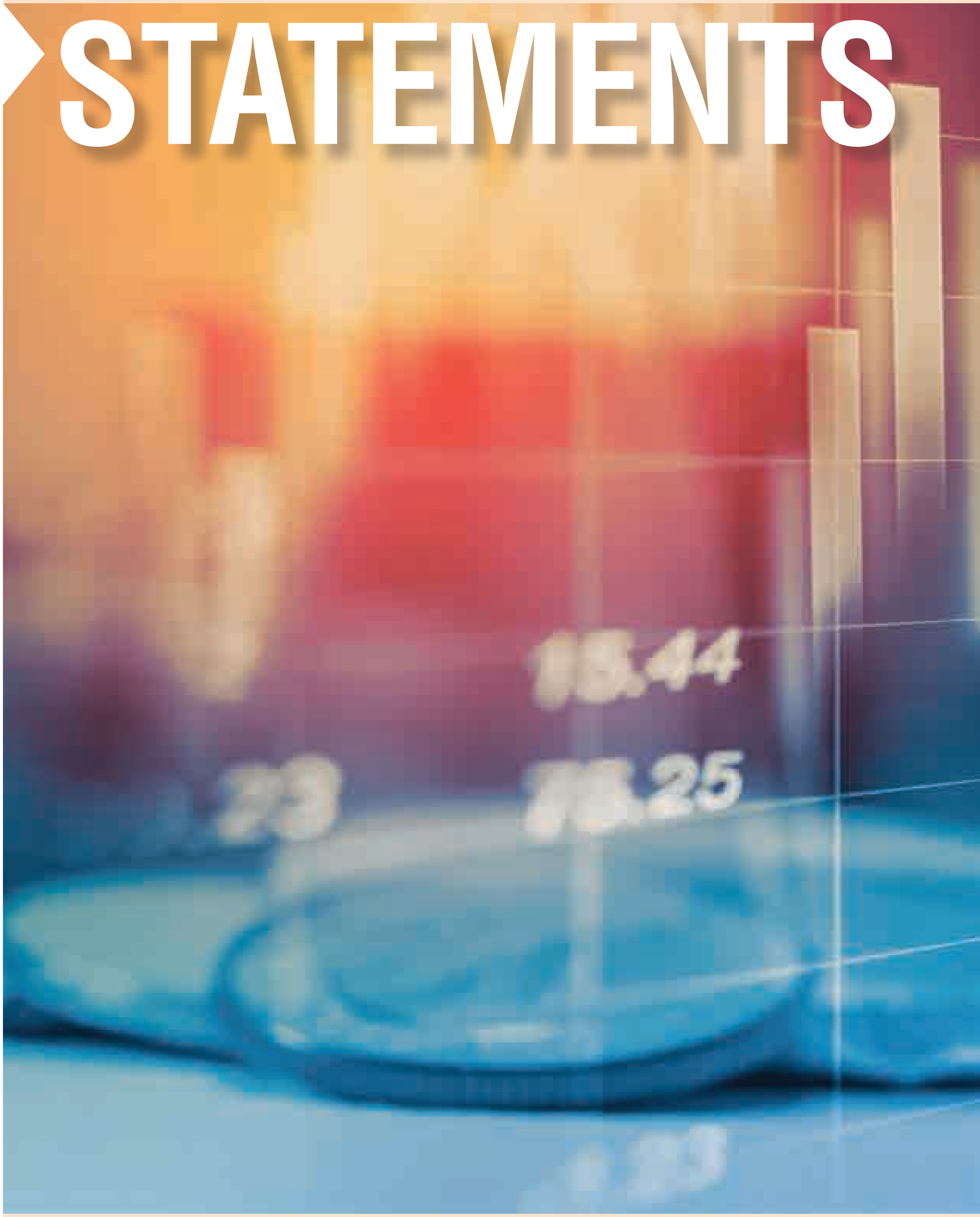
- Applied the appropriate and relevant accounting policies on a consistent basis;
- Made judgements and estimates that are prudent and reasonable; and
- Prepared the financial statements on the going concern basis.

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

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

This statement has been approved by the Board of Directors on 2 March 2020.

# FINANCIAL STATEMENTS

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# DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are disclosed in Note 15 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 (loss)/profit for the financial year | (149,447) | 20,720 |
| Attributable to: | | |
| Owners of the parent | (149,219) | 20,720 |
| Non-controlling interests | (228) | – |
| | (149,447) | 20,720 |

## 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 2019:

| | <------------ Dividend ------------> Sen per share | RM'000 | Payment Date |
|---|---|---|---|
| First interim single tier dividend | 6.0 | 15,630 | 27 June 2019 |
| Second interim single tier dividend | 2.5 | 6,531 | 11 October 2019 |
| | 8.5 | 22,161 | |

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2019.

## RESERVES & 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 & DEBENTURES

During the financial year, the Company increased its issued and paid-up share capital from RM149,401,921 to RM151,878,885 through the issuance of 724,700 ordinary shares pursuant to the Long Term Incentive Plan at no consideration.

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

## SHARE SCHEME

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

### Option Plan

The principal features of the Option Plan are as follows:

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

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

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

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

# DIRECTORS' REPORT

## SHARE SCHEME (CONTINUED)

**Option Plan (continued)**

As at 31 December 2019, particulars of the outstanding options granted under the Option Plan were as follows:

| | | <---- Number of options over ordinary shares ----> | | | | |
|---|---|---|---|---|---|---|
| **Date of grant** | **Option price** | **At 1.1.2019** | **Granted** | **Exercised** | **Forfeited** | **At 31.12.2019** |
| 13 May 2016 | RM5.04 | 10,040,000 | – | – | (2,000,000) | 8,040,000 |

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

| | <---- Number of options over ordinary shares ----> | | | |
|---|---|---|---|---|
| | **At 1.1.2019** | **Granted** | **Exercised** | **At 31.12.2019** |
| Datin Shamsinar H Shaari | 375,000 | – | – | 375,000 |
| Sharifah Fauziyah Syed Mohthar | 375,000 | – | – | 375,000 |
| Mohamed Iqbal Abdul Rahman | 350,000 | – | – | 350,000 |
| Norai'ni Mohamed Ali | 350,000 | – | – | 350,000 |
| Abdul Malik Mohamed | 300,000 | – | – | 300,000 |
| Zulhazri Razali | 290,000 | – | – | 290,000 |

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

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

**Long Term Incentive Plan ("LTIP")**

The principal features of the LTIP are as follows:

(a) Subject always to the eligibility criteria set out below, the Executive Director and Eligible Employees of the Group are awarded with new ordinary shares in the Company for nil consideration:

- if he has attained the age of 18 years, is not an undischarged bankrupt and is not subject to any bankruptcy proceedings;
- if he entered into a full-time or fixed term contract with, and is on the payroll of the Group, and whose service has been confirmed;
- if he is serving in a specific designation under an employment contract, whether on a permanent contract or for a fixed duration (or any other contract as may be determined by the Scheme Committee); and
- if he fulfils any other criteria and/or falls within such category as may be determined by the Scheme Committee from time to time.

## SHARE SCHEME (CONTINUED)

**Long Term Incentive Plan ("LTIP") (continued)**

The principal features of the LTIP are as follows: (continued)

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

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

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

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

As at 31 December 2019, particulars of the shares granted under the LTIP were as follows:

| | Number of ordinary shares | | | | |
|---|---|---|---|---|---|
| **Date of grant** | **At 1.1.2019** | **Granted** | **Vested** | **Lapsed** | **At 31.12.2019** |
| 18 May 2017 | 160,400 | – | (160,400) | – | – |
| 18 May 2018 | 480,600 | – | (240,300) | – | 240,300 |
| 17 May 2019 | – | 1,000,000 | (324,000) | – | 676,000 |

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

## DIRECTORS

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

| | |
|---|---|
| Dato' Farshila Emran | (Appointed on 25 March 2011 and resigned on 31 March 2020) |
| Mohd Suffian Haji Haron | (Appointed on 29 April 2011 and resigned on 28 April 2020) |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | |
| Datuk (Dr.) Hafsah Hashim | (Appointed on 17 July 2019) |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.) | (Appointed on 17 July 2019) |
| Dato' Mohd Zahir Zahur Hussain | (Appointed on 17 July 2019) |
| Datuk Koo Hock Fee | (Appointed on 17 July 2019) |
| Dr. Salmah Bahri | (Appointed on 1 January 2020) |
| Fahmy Ismail | (Appointed on 1 January 2019 and resigned on 31 July 2019) |
| Tan Sri Dato' Seri Dr. Haji Mohamed Ismail Merican | (Appointed on 17 July 2019 and resigned on 17 September 2019) |
| Izzat Othman | (Appointed on 25 March 2011 and resigned on 31 July 2019) |

# DIRECTORS' REPORT

## DIRECTORS (CONTINUED)

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

Izzat Othman
Mohamed Iqbal Abdul Rahman
Norai'ni Mohamed Ali
Datin Shamsinar H Shaari
Sharifah Fauziyah Syed Mohthar
Abdul Malik Mohamed
Zulhazri Razali
Yang Fairuz Abdul Aziz
Mohd Saharuddin Othman
Shahanaz Sulaiman
Badarulhisam Abdul Rahman
Yusni Rizal Khairul Anuar
Muhammad Fauzi Abdul Hamid
Suzana Yahya
Mohd Izwan Ishak
Dr. Nyoman Kumara Rai

## DIRECTORS' BENEFITS

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

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

The Directors and Officers of the Company are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudulently or dishonestly or derived any personal profit or advantage. The insurance is maintained on a group basis by Pharmaniaga Berhad and the total premium paid by Pharmaniaga Berhad during the financial year amounted to RM68,910.

## NOMINATING & REMUNERATION COMMITTEE

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

| | |
|---|---|
| Mohd Suffian Haji Haron | (Chairman until 28 April 2020) |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | (Appointed on 23 August 2019) |
| Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.) | (Appointed on 23 August 2019) |
| Dr. Salmah Bahri | (Appointed on 14 February 2020) |
| Izzat Othman | (Resigned on 31 July 2019) |

## DIRECTORS' INTERESTS IN SHARES

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

| | <-------------------- Number of ordinary shares --------------------> | | | |
|---|---|---|---|---|
| | **At 1.1.2019/ Date of appointment** | **Acquired** | **Sold** | **At 31.12.2019** |
| **The Company** | | | | |
| **Direct interest** | | | | |
| Dato' Farshila Emran | 351,500 | 107,200 | – | 458,700 |
| Mohd Suffian Haji Haron | 80,000 | 20,000 | – | 100,000 |
| Datuk Koo Hock Fee * | 108,024 | – | – | 108,024 |
| **Immediate holding company** | | | | |
| Boustead Holdings Berhad | | | | |
| Datuk Koo Hock Fee * | 841,288 | – | – | 841,288 |
| **Related corporations** | | | | |
| Boustead Heavy Industries Corporation Berhad | | | | |
| Mohd Suffian Haji Haron | 20,000 | – | – | 20,000 |
| Boustead Plantations Berhad | | | | |
| Mohd Suffian Haji Haron | 42,000 | – | – | 42,000 |
| Datuk Koo Hock Fee * | 1,437,940 | – | – | 1,437,940 |

** From date of appointment*

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

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

| | <----------- Number of options over ordinary shares -----------> | | | |
|---|---|---|---|---|
| | **At 1.1.2019** | **Granted** | **Exercised** | **At 31.12.2019** |
| **The Company** | | | | |
| Dato' Farshila Emran | 2,000,000 | – | – | 2,000,000 |
| Mohd Suffian Haji Haron | 2,000,000 | – | – | 2,000,000 |
| Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | 2,000,000 | – | – | 2,000,000 |

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

| | <------------------- Number of ordinary shares -------------------> | | | |
|---|---|---|---|---|
| | **At 1.1.2019** | **Granted** | **Vested** | **At 31.12.2019** |
| **The Company** | | | | |
| Dato' Farshila Emran | 101,000 | 133,000 | (107,200) | 126,800 |

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

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

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

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

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

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

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

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

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGING CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

(a) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the full amortisation of 'rights to supply' intangible assets of RM247,320,000 as disclosed in Note 16 to the financial statements; 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.

## SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant event during the financial year is disclosed in Note 37 to the financial statements.

## 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.

# DIRECTORS' REPORT

## SUBSIDIARIES

Details of subsidiaries are set out in Note 15 to the financial statements.

## AUDITORS' REMUNERATION

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

## AUDITORS

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

This report was approved by the Board of Directors on 2 March 2020. Signed on behalf of the Board of Directors:

**DATUK (DR.) HAFSAH HASHIM**
INDEPENDENT NON-EXECUTIVE CHAIRMAN

**DATO' MOHD ZAHIR ZAHUR HUSSAIN**
INDEPENDENT NON-EXECUTIVE DIRECTOR

# STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Datuk (Dr.) Hafsah Hashim and Dato' Mohd Zahir Zahur Hussain, being two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 132 to 240 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and financial performance of the Group and of the Company for the financial year ended on 31 December 2019 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution dated 2 March 2020.

**DATUK (DR.) HAFSAH HASHIM**
INDEPENDENT NON-EXECUTIVE CHAIRMAN

**DATO' MOHD ZAHIR ZAHUR HUSSAIN**
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

I, Norai'ni Mohamed Ali, being the officer primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 132 to 240 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

**NORAI'NI MOHAMED ALI**
MIA Number: 44576

Subscribed and solemnly declared by the abovenamed Norai'ni Mohamed Ali at Kuala Lumpur on 2 March 2020, before me.

COMMISSIONER FOR OATHS

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Registration No. 199801011581 (467709-M))

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Pharmaniaga Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 132 to 240.

### Basis for opinion

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

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

### Independence and other ethical responsibilities

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

### Our audit approach

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

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Key audit matters

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

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Assessment of the remaining useful life of the 'rights to supply' intangible assets arising from the Concession Agreement** | |
| Refer to Note 2(h) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 16 (Intangible Assets).<br><br>The useful life of the Group's 'rights to supply' intangible assets was revised and fully amortised during the financial year ended 31 December 2019 following the recent development surrounding the Concession Agreement, as disclosed in Note 35(f) and Note 37. This revision has been accounted for as a change in accounting estimate, resulting in an amortisation charge of RM247 million during the financial year ended 31 December 2019.<br><br>We focused on this area as the determination of the remaining useful life of the 'rights to supply' intangible assets by management involved a significant degree of judgement and assumptions. | Our procedures in relation to management's assessment of the remaining useful life of the 'rights to supply' intangible assets included the following:<br><br>• Read the Concession Agreement's extension letter from the Ministry of Health dated 15 November 2019;<br>• Evaluated management's basis for revising the useful life of the 'rights to supply' intangible assets;<br>• Checked the calculations of the amortisation charge during the financial year; and<br>• Assessed the adequacy of the disclosures made in the financial statements.<br><br>Based on the above procedures performed, we noted no significant exceptions to management's assessment of the remaining useful life of the Group's 'rights to supply' intangible assets. |
| **Impairment assessment of goodwill** | |
| Refer to Note 2(h) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 16 (Intangible Assets).<br><br>The Group's goodwill of RM132.8 million as at 31 December 2019 were allocated to 4 cash-generating units ("CGUs"), namely, Trading and distribution and Manufacturing CGUs in Malaysia and Indonesia. | Our procedures performed in relation to management's impairment assessment and testing included the following:<br><br>• Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results;<br>• Checked the key assumptions used by management, in particular, sales volume growth rate and product margins by comparing to business plans, historical results and market data; |

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Registration No. 199801011581 (467709-M))

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Key audit matters (continued)

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Impairment assessment of goodwill (continued)**<br><br>Goodwill is subject to annual impairment testing. We focused on this area as the determination of recoverable amounts of the assets in these 4 CGUs based on value-in-use calculations by management involved a significant degree of judgement and assumptions on sales volume growth rate and product margins. | • Checked the discount rate used by comparing the rate used by comparable companies;<br>• Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and<br>• Assessed the adequacy of the disclosures in the financial statements.<br><br>Based on the above procedures performed, we noted no significant exceptions. |
| **Impairment assessment of property, plant and equipment and intangible assets of the Group's small volume injectable plant**<br><br>Refer to Note 2(e) and 2(h) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 12 (Property, Plant and Equipment).<br><br>The carrying values of property, plant and equipment ("PPE") and intangible asset of the Group's small volume injectable plant as at 31 December 2019 are RM127.6 million and RM9.8 million respectively.<br><br>The intangible assets relate to capitalised development costs work-in-progress and subject to annual impairment testing.<br><br>An impairment assessment was performed by management on the small volume injectable plant because the plant has not been utilised at its maximum capacity as most of the products are still at development stage.<br><br>Management assessed the impairment assessment of intangible assets together with the PPE as one CGU. The recoverable amount of the CGU is determined based on value-in-use calculations. | We examined the impairment assessment prepared by the management and our procedures included the following:<br>• Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results;<br>• Evaluated the methodology and reasonableness of the key assumptions used in determining the terminal value of land;<br>• Checked the key assumptions used by management in the value-in-use calculations, in particular, sales volume growth rate and product margins by comparing to business plans, historical results and market data;<br>• Checked the discount rate used by comparing the rate used by comparable companies;<br>• Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and |

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Key audit matters (continued)

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Impairment assessment of property, plant and equipment and intangible assets of the Group's small volume injectable plant (continued)**<br><br>No impairment was required as the recoverable amount of the CGU was in excess of the carrying amount of the assets within the CGU.<br><br>We focused on this area as the impairment assessment performed by management requires significant judgement as the timing and quantum of the cash flows is dependent on sales volume growth rate, product margins and terminal value of the land. | • Assessed the adequacy of the disclosures in the financial statements.<br><br>Based on the above procedures performed, we noted no significant exceptions. |
| **Recognition of deferred tax assets by the Group's small volume injectable subsidiary**<br><br>Refer to Note 2(t) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 30 (Deferred Taxation).<br><br>As at 31 December 2019, the Group has recognised deferred tax assets of RM19.3 million relating to the small volume injectable subsidiary. The deferred tax assets arose from unutilised tax losses and unabsorbed capital allowances.<br><br>We focused on this area due to the continued losses recorded by the small volume injectable subsidiary and significant management judgement involved in determining the amount of deferred tax assets to be recognised based on the probability that future taxable profits will be available. | We evaluated management's assessment of the probability of utilisation of tax losses and capital allowances against future taxable profits, which have been used as the basis to recognise the deferred tax assets. Our procedures included the following:<br><br>• Checked the key assumptions used in the future taxable profit projections, in particular, sales volume growth rate and product margins by comparing to business plans, historical results and market data; and<br><br>• Assessed the reliability of management's forecasted future taxable profits through the review of past trends of actual financial performances against previous forecasted results.<br><br>Based on the above procedures performed, we noted no significant exceptions. |

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Registration No. 199801011581 (467709-M))

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Key audit matters (continued)

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Recoverability of cost of investment in a small volume injectable subsidiary in the financial statements of the Company** | |
| Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 15 (Subsidiaries).<br><br>As at 31 December 2019, the carrying value of the cost of investment in the small volume injectable subsidiary is RM200.0 million.<br><br>An impairment assessment was performed by management because the subsidiary's small volume injectable plant has not been utilised at its maximum capacity as most of the products are still at development stage.<br><br>The recoverable amount of the investment is determined based on discounted future cash flows adjusted for tax and repayment of intercompany balances.<br><br>No impairment was required as the recoverable amount was in excess of its carrying amount.<br><br>We focused on this area as the recoverable amount of the investment is determined based on value-in-use method, which requires judgement on the part of management on the future financial performance of subsidiary. | Our procedures in relation to management's impairment assessment included the following:<br><br>• Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results;<br>• Checked the key assumptions used by management in the value-in-use calculations on sales volume growth rate and product margins by comparing with business plans, historical results and market data;<br>• Checked that the outcome of the related sensitivity analysis based on range of possible changes determined by management is consistent with our independent expectations; and<br>• Assessed the adequacy of the disclosures in the financial statements.<br><br>Based on the above procedures performed, we did not note any significant exceptions. |

### Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Chairman's Statement, Managing Director's Review, Operations Review, Corporate Governance Overview Statement, Statement on Risk Management and Internal Control, Audit Committee Report, Statement of Directors' Responsibility for Preparation of Financial Statements, Director's Report and other sections of the 2019 Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Information other than the financial statements and auditors' report thereon (continued)

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

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

### Responsibilities of the Directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

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

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

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Registration No. 199801011581 (467709-M))

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Auditors' responsibilities for the audit of the financial statements (continued)

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

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

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

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

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

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

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

## REPORT ON OTHER LEGAL & REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 15 to the financial statements.

## OTHER MATTERS

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

**PRICEWATERHOUSECOOPERS PLT**
LLP0014401-LCA & AF 1146
Chartered Accountants

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

Kuala Lumpur
2 March 2020

# STATEMENTS OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Revenue | 4 | **2,820,530** | 2,384,956 | **50,500** | 129,529 |
| Cost of sales* | 5 | **(2,726,549)** | (2,062,845) | **–** | – |
| Gross profit | | **93,981** | 322,111 | **50,500** | 129,529 |
| Other income | 7(b) | **1,245** | 959 | **–** | 37 |
| Administrative expenses | | **(248,225)** | (217,677) | **(24,748)** | (20,769) |
| Finance costs | 6 | **(40,258)** | (36,072) | **(5,056)** | (6,373) |
| Interest income | | **1,392** | 899 | **24** | 295 |
| (Loss)/Profit before zakat and taxation | 7(a) | **(191,865)** | 70,220 | **20,720** | 102,719 |
| Zakat | | **(2,240)** | (1,071) | **–** | – |
| Taxation | 9 | **44,658** | (25,919) | **–** | – |
| Net (loss)/profit for the financial year | | **(149,447)** | 43,230 | **20,720** | 102,719 |
| Attributable to: | | | | | |
| Owners of the parent | | **(149,219)** | 42,468 | **20,720** | 102,719 |
| Non-controlling interests | | **(228)** | 762 | **–** | – |
| Net (loss)/profit for the financial year | | **(149,447)** | 43,230 | **20,720** | 102,719 |
| (Loss)/Earnings per share (sen): | | | | | |
| – Basic | 10(a) | **(57.19)** | 16.33 | | |
| – Diluted | 10(b) | **(56.99)** | 16.29 | | |

** Included in cost of sales of the Group is the amortisation of 'rights to supply' intangible assets of RM247,320,000 (2018: RM18,555,000)*

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

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Net (loss)/profit for the financial year | | **(149,447)** | 43,230 | **20,720** | 102,719 |
| Other comprehensive income/(loss), net of tax: | | | | | |
| Items that will be subsequently reclassified to profit or loss | | | | | |
| Foreign currency translation gain/(loss) for foreign operations | | **2,544** | (2,670) | **–** | – |
| Items that will not be reclassified to profit or loss | | | | | |
| Recognition of actuarial (losses)/gains | 31 | **(212)** | 679 | **–** | – |
| Other comprehensive income/(loss), net of tax for the financial year | | **2,332** | (1,991) | **–** | – |
| Total comprehensive (loss)/income, net of tax for the financial year | | **(147,115)** | 41,239 | **20,720** | 102,719 |
| Attributable to: | | | | | |
| Owners of the parent | | **(147,122)** | 40,750 | **20,720** | 102,719 |
| Non-controlling interests | | **7** | 489 | **–** | – |
| | | **(147,115)** | 41,239 | **20,720** | 102,719 |

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

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **ASSETS** | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 12 | **382,268** | 406,407 | **–** | – |
| Right-of-use assets | 13(a) | **27,842** | – | **–** | – |
| Prepaid lease payments | 14 | **–** | 2,098 | **–** | – |
| Subsidiaries | 15 | **–** | – | **594,154** | 592,486 |
| Intangible assets | 16 | **200,342** | 400,892 | **–** | – |
| Other receivables | 19 | **–** | – | **–** | – |
| Amounts due from subsidiaries | 20(a) | **–** | – | **23,120** | 23,205 |
| Deferred tax assets | 30 | **48,139** | 39,796 | **–** | – |
| | | **658,591** | 849,193 | **617,274** | 615,691 |
| Current assets | | | | | |
| Inventories | 17 | **617,909** | 693,020 | **–** | – |
| Trade receivables and contract assets | 18 | **204,100** | 222,779 | **–** | – |
| Other receivables | 19 | **63,032** | 89,137 | **7** | 10,417 |
| Amount due from immediate holding company | 25 | **14** | 9 | **–** | – |
| Amounts due from subsidiaries | 20(a) | **–** | – | **69,516** | 64,069 |
| Tax recoverable | | **19,069** | 17,926 | **–** | 1 |
| Deposits, cash and bank balances | 21 | **29,587** | 35,655 | **487** | 336 |
| | | **933,711** | 1,058,526 | **70,010** | 74,823 |
| **TOTAL ASSETS** | | **1,592,302** | 1,907,719 | **687,284** | 690,514 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **EQUITY AND LIABILITIES** | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | | |
| Share capital | 28 | **151,879** | 149,401 | **151,879** | 149,401 |
| Exchange reserve | | **3,289** | 1,036 | **–** | – |
| Share reserves | 29 | **7,191** | 8,015 | **6,173** | 6,632 |
| Retained earnings | | **175,492** | 350,884 | **290,375** | 295,672 |
| | | **337,851** | 509,336 | **448,427** | 451,705 |
| Non-controlling interests | | **19,075** | 19,327 | **–** | – |
| Total equity | | **356,926** | 528,663 | **448,427** | 451,705 |
| Non-current liabilities | | | | | |
| Government grants | 26 | **4,289** | 4,630 | **–** | – |
| Borrowings | 27 | **316** | 102 | **–** | – |
| Lease liabilities | 13(b) | **2,125** | – | **–** | – |
| Deferred tax liabilities | 30 | **18,066** | 59,191 | **–** | – |
| Provision for defined benefit plan | 31 | **9,999** | 8,306 | **–** | – |
| | | **34,795** | 72,229 | **–** | – |
| Current liabilities | | | | | |
| Amounts due to subsidiaries | 20(b) | **–** | – | **186,087** | 22,197 |
| Amounts due to related companies | 22 | **2,230** | 2,429 | **–** | 5 |
| Trade payables | 23 | **548,994** | 572,257 | **–** | – |
| Other payables | 24 | **75,286** | 71,033 | **2,741** | 3,434 |
| Amount due to immediate holding company | 25 | **190** | 390 | **29** | 148 |
| Contract liabilities | 32(b) | **6,387** | 242 | **–** | – |
| Government grants | 26 | **341** | 341 | **–** | – |
| Borrowings | 27 | **564,981** | 642,745 | **50,000** | 200,000 |
| Lease liabilities | 13(b) | **1,457** | – | **–** | – |
| Current tax liabilities | | **715** | 4,365 | **–** | – |
| Dividend payable | | **–** | 13,025 | **–** | 13,025 |
| | | **1,200,581** | 1,306,827 | **238,857** | 238,809 |
| Total liabilities | | **1,235,376** | 1,379,056 | **238,857** | 238,809 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,592,302** | 1,907,719 | **687,284** | 690,514 |

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | | <------ Equity attributable to equity holders of the Company ------> | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Note** | **Share capital RM'000** | **Exchange reserve RM'000** | **Share reserves RM'000** | **Retained earnings RM'000** | **Total RM'000** | **Non-controlling interests RM'000** | **Total equity RM'000** |
| At 1 January 2019 | | 149,401 | 1,036 | 8,015 | 350,884 | 509,336 | 19,327 | 528,663 |
| Net loss for the financial year | | – | – | – | (149,219) | (149,219) | (228) | (149,447) |
| Other comprehensive income/(loss) | | – | 2,253 | – | (156) | 2,097 | 235 | 2,332 |
| Total comprehensive income/(loss) for the financial year | | – | 2,253 | – | (149,375) | (147,122) | 7 | (147,115) |
| Transactions with owners: | | | | | | | | |
| Issuance of new shares: | | | | | | | | |
| – Long Term Incentive Plan | 28 | 2,478 | – | (2,478) | – | – | – | – |
| Share options granted under Option Plan | | – | – | 466 | – | 466 | – | 466 |
| Shares granted under Long Term Incentive Plan | | – | – | 2,542 | – | 2,542 | – | 2,542 |
| Forfeiture of shares options granted under Option Plan | | – | – | (1,354) | 1,354 | – | – | – |
| Dividends: | | | | | | | | |
| – owners of the Company | 11 | – | – | – | (27,371) | (27,371) | – | (27,371) |
| – non-controlling interests of a subsidiary | | – | – | – | – | – | (259) | (259) |
| Total transactions with owners for the financial year | | 2,478 | – | (824) | (26,017) | (24,363) | (259) | (24,622) |
| At 31 December 2019 | | 151,879 | 3,289 | 7,191 | 175,492 | 337,851 | 19,075 | 356,926 |

| | | <------ Equity attributable to equity holders of the Company ------> | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Note** | **Share capital RM'000** | **Exchange reserve RM'000** | **Share reserves RM'000** | **Retained earnings RM'000** | **Total RM'000** | **Non-controlling interests RM'000** | **Total equity RM'000** |
| At 1 January 2018 | | 146,213 | 3,239 | 10,527 | 356,232 | 516,211 | 19,081 | 535,292 |
| Net profit for the financial year | | – | – | – | 42,468 | 42,468 | 762 | 43,230 |
| Other comprehensive (loss)/income | | – | (2,203) | – | 485 | (1,718) | (273) | (1,991) |
| Total comprehensive (loss)/ income for the financial year | | – | (2,203) | – | 42,953 | 40,750 | 489 | 41,239 |
| Transactions with owners: | | | | | | | | |
| Issuance of new shares: | | | | | | | | |
| – Long Term Incentive Plan | 28 | 3,188 | – | (3,188) | – | – | – | – |
| Share options granted under Option Plan | | – | – | 1,662 | – | 1,662 | – | 1,662 |
| Shares granted under Long Term Incentive Plan | | – | – | 2,739 | – | 2,739 | – | 2,739 |
| Forfeiture of shares options/ shares granted under: | | | | | | | | |
| – Option Plan | | – | – | (3,646) | 3,646 | – | – | – |
| – Long Term Incentive Plan | | – | – | (79) | 79 | – | – | – |
| Dividends: | | | | | | | | |
| – owners of the Company | 11 | – | – | – | (52,026) | (52,026) | – | (52,026) |
| – non-controlling interests of a subsidiary | | – | – | – | – | – | (243) | (243) |
| Total transactions with owners for the financial year | | 3,188 | – | (2,512) | (48,301) | (47,625) | (243) | (47,868) |
| At 31 December 2018 | | 149,401 | 1,036 | 8,015 | 350,884 | 509,336 | 19,327 | 528,663 |

# STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| Company | Note | <------ Non-distributable ------> Share capital RM'000 | Share reserves RM'000 | Distributable Retained earnings RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | | **149,401** | **6,632** | **295,672** | **451,705** |
| Total comprehensive income for the financial year | | **–** | **–** | **20,720** | **20,720** |
| Transactions with owners: | | | | | |
| Issuance of new shares: | | | | | |
| – Long Term Incentive Plan | 28 | **2,478** | **(810)** | **–** | **1,668** |
| Share options granted under Option Plan | | **–** | **466** | **–** | **466** |
| Shares granted under Long Term Incentive Plan | | **–** | **1,239** | **–** | **1,239** |
| Forfeiture of share options granted under Option Plan | | **–** | **(1,354)** | **1,354** | **–** |
| Dividends | 11 | **–** | **–** | **(27,371)** | **(27,371)** |
| Total transactions with owners for the financial year | | **2,478** | **(459)** | **(26,017)** | **(23,998)** |
| At 31 December 2019 | | **151,879** | **6,173** | **290,375** | **448,427** |
| At 1 January 2018 | | 146,213 | 8,676 | 241,333 | 396,222 |
| Total comprehensive income for the financial year | | – | – | 102,719 | 102,719 |
| Transactions with owners: | | | | | |
| Issuance of new shares: | | | | | |
| – Long Term Incentive Plan | 28 | 3,188 | (488) | – | 2,700 |
| Share options granted under Option Plan | | – | 1,662 | – | 1,662 |
| Shares granted under Long Term Incentive Plan | | – | 428 | – | 428 |
| Forfeiture of share options granted under Option Plan | | – | (3,646) | 3,646 | – |
| Dividends | 11 | – | – | (52,026) | (52,026) |
| Total transactions with owners for the financial year | | 3,188 | (2,044) | (48,380) | (47,236) |
| At 31 December 2018 | | 149,401 | 6,632 | 295,672 | 451,705 |

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

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash receipts from customers | | **2,894,967** | 2,374,187 | **9,502** | – |
| Cash payments to suppliers and employees | | **(2,655,974)** | (2,402,704) | **(13,094)** | (16,909) |
| Cash generated from/(used in) operations | | **238,993** | (28,517) | **(3,592)** | (16,909) |
| Interest paid | | **(38,039)** | (36,946) | **–** | – |
| Tax (paid)/refunded | | **(10,341)** | (16,199) | **1** | (1) |
| Zakat paid | | **(2,240)** | (1,071) | **–** | – |
| Interest received | | **1,392** | 899 | **24** | – |
| Net cash generated from/(used in) operating activities | | **189,765** | (81,834) | **(3,567)** | (16,910) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from disposal of property, plant and equipment | | **69** | 97 | **–** | – |
| Purchase of property, plant and equipment | 12 | **(20,376)** | (17,266) | **–** | – |
| Purchase of intangible assets | 16 | **(52,372)** | (54,588) | **–** | – |
| Gross advances to subsidiaries | | **–** | – | **(12,269)** | (23,390) |
| Gross repayments from subsidiaries | | **–** | – | **12,549** | 500 |
| Increase in investment in deposits maturing more than three (3) months | | **(5)** | (4,829) | **–** | – |
| Net cash (used in)/generated from investing activities | | **(72,684)** | (76,586) | **280** | (22,890) |

# STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | Group 2019 RM'000 | Group 2018 RM'000 | Company 2019 RM'000 | Company 2018 RM'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Dividends paid to: | | | | | |
| – owners of the Company | | **(40,396)** | (39,001) | **(40,396)** | (39,001) |
| – non-controlling interests of a subsidiary | | **(259)** | (243) | **–** | – |
| Drawdown of short term borrowings | | **1,431,086** | 1,535,866 | **65,000** | 282,000 |
| Interest paid | | **–** | – | **(5,056)** | (6,373) |
| Repayment of short term borrowings | | **(1,512,464)** | (1,334,760) | **(215,000)** | (141,000) |
| Gross advances received from subsidiaries | | **–** | – | **282,974** | 215,333 |
| Gross repayments to subsidiaries | | **–** | – | **(84,084)** | (271,000) |
| Payment of lease liabilities | 13(b) | **(3,242)** | – | **–** | – |
| Net cash (used in)/generated from financing activities | | **(125,275)** | 161,862 | **3,438** | 39,959 |
| NET CHANGES IN CASH AND CASH EQUIVALENTS | | **(8,194)** | 3,442 | **151** | 159 |
| Foreign exchange differences | | **318** | (509) | **–** | – |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR | | **30,826** | 27,893 | **336** | 177 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR | 21 | **22,950** | 30,826 | **487** | 336 |

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 1 GENERAL INFORMATION

The Company is an investment holding company. The principal activities of its subsidiaries are disclosed in Note 15.

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

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

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

Registered office:

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

Principal place of business:

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

During the financial year ended 31 December 2019, the Group and the Company were in a net current liabilities position of RM266,870,000 and RM168,847,000 respectively. The Directors have prepared the financial statements on a going concern basis based on the undrawn committed borrowing facilities available to the Group and the Company as disclosed in Note 27. In addition, should the need arise, the profitable subsidiaries can distribute dividends to the Company to enable the Company to meet its immediate commitments as and when they fall due.

The 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's and the Company's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

On 1 January 2019, the Group and the Company have applied the following new published standards, amendments and IC Interpretation to published standards:

| | |
|---|---|
| MFRS 16 | Leases |
| Amendments to MFRS 119 "Employee Benefits" | Plan Amendment, Curtailment or Settlement |
| Annual Improvement to MFRSs 2015 – 2017 Cycle | Amendments to MFRS 3 "Business Combination", MFRS 112 "Income Taxes" and MFRS 123 "Borrowing Costs" |
| IC Interpretation 23 "Uncertainty over Income Tax Treatments" | Recognition and Measurement |
| Amendments to MFRS 3 "Business Combination" | Definition of a Business |
| Amendments to MFRS 9 "Financial Instruments" | Prepayment Features with Negative Compensation |
| Amendments to MFRS 128 "Investments in Associates and Joint Ventures" | Long-term Interests in Associates and Joint Ventures |

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

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

Except for the adoption of MFRS 16 as further explained below, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

- MFRS 16 "Leases" replaces MFRS 117 "Leases"

  The Group has adopted MFRS 16 for the first time in the 2019 financial statements with the date of initial application ("DIA") of 1 January 2019 by applying modified retrospective approach without restating the comparatives and a number of practical expedients as provided in MFRS 16.

  Under the modified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Group is a lessee were recognised as an adjustment to the opening statement of financial position as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 "Leases" and IC Interpretation 4 "Determining whether an Arrangement Contains a Lease".

  In addition, the Group has elected not to reassess whether a contract is, or contains a lease at the DIA. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying MFRS 117 and IC Interpretation 4.

  The Group as a lessee

  (i) Leases classified as operating leases under MFRS 117

  On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

  Right-of-use ("ROU") assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

  In applying MFRS 16 for the first time, the Group has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117:

  - the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
  - reliance on previous assessments on whether leases are onerous;
  - the exclusion of initial direct costs for the measurement of the ROU assets at the DIA; and
  - the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

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

Except for the adoption of MFRS 16 as further explained below, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods. (continued)

- MFRS 16 "Leases" replaces MFRS 117 "Leases" (continued)

The Group as a lessee (continued)

(ii) Leases classified as finance leases under MFRS 117

For leases previously classified as finance leases and presented as a part of 'property, plant and equipment', the Group recognised the carrying amount of the lease asset and lease liability immediately before transition which were measured applying MFRS 117 as the carrying amount of the ROU assets and the lease liability at the DIA.

(iii) Adjustment as at 1 January 2019

As at 1 January 2019, the adoption of MFRS 16 has affected the following items:

| | As at 31 December 2018 RM'000 | MFRS 16 Leases RM'000 | As at 1 January 2019 RM'000 |
|---|---|---|---|
| Property, plant and equipment | 406,407 | (22,979) | 383,428 |
| Right-of-use assets | – | 30,717 | 30,717 |
| Prepaid lease payments | 2,098 | (2,098) | – |
| Lease liabilities | – | 5,640 | 5,640 |

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was from 4.0% to 9.0% per annum.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

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

Except for the adoption of MFRS 16 as further explained below, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods. (continued)

- MFRS 16 "Leases" replaces MFRS 117 "Leases" (continued)

  The Group as a lessee (continued)

  (iv) Measurement of lease liabilities on 1 January 2019

  The reconciliation between the operating lease commitments disclosed based on application of MFRS 117 at 31 December 2018 to the lease liabilities recognised at 1 January 2019 is as follows:

| | **Group RM'000** |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 20,591 |
| Contracts scoped out under MFRS 16 | (14,279) |
| Discounted using weighted average incremental borrowing rate as at 1 January 2019 | (684) |
| Adjustments in relation to extension options | 12 |
| Lease liabilities recognised as at 1 January 2019 upon adoption of MFRS 16 | 5,640 |
| Presented as: | |
| Current liabilities | 2,842 |
| Non-current liabilities | 2,798 |
| | 5,640 |

- Early adoption of Amendments to MFRS 3 "Business Combinations"

  The Group has early adopted the amendments to MFRS 3 and applied it on asset acquisitions that occur on or after the beginning of 1 January 2019. The amendments clarify the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

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

  The adoption of the above amendments did not have any impact on the financial statements of the Group.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

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

(i) At the date of authorisation of the financial statements, the following standards and amendments have been issued and are effective for financial year beginning after 1 January 2020 and have not been applied by the Group:

- The Conceptual Framework for Financial Reporting (Revised 2018).
- Amendments to MFRS 101 "Presentation of Financial Statements" and Amendments to MFRS 108 "Accounting Policies, Changes in Accounting Estimates, and Errors".
- MFRS 17 "Insurance Contracts".
- Amendments to MFRS 9 "Financial Instruments", MFRS 139 "Financial Instruments: Recognition and Measurement" and MFRS 7 "Financial Instruments: Disclosures".

(ii) The effective date for the amendments to MFRS 10 "Consolidated Financial Statements" and MFRS 128 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between Investor and its Associate or Joint Venture has been deferred to a date to be determined by Malaysian Accounting Standards Board.

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

### (b) Consolidation

(i) Subsidiaries

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Consolidation (continued)

(i) Subsidiaries (continued)

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.

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 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.

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, plant and equipment

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

Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (see accounting policy Note 2(o) on borrowings and borrowing costs).

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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 'other income' 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 30 years 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% |
| Furniture and fittings | 10% – 25% |
| Renovation | 5% – 25% |
| Equipment | 5% – 25% |
| Motor vehicles | 20% – 25% |
| Plant and machinery | 5% – 20% |

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

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

From 1 January 2019, leasehold lands are recognised as 'right-of-use' assets as disclosed in Note 2(ab).

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 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 years to 33 years.

From 1 January 2019, prepaid lease payments are recognised as 'right-of-use' assets as disclosed in Note 2(ab).

### (g) Investments in subsidiaries in separate financial statements

In the Company's separate financial statements, investments in subsidiaries 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 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.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 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 10 years to 15 years.

(iii) Rights to supply

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

Following the recent development on the concession arrangement as disclosed in Notes 35(f) and 37, the Group has revised the remaining useful life of its rights to supply from 10 years to nil year. The change has resulted in full amortisation charge of RM247,320,000 during the financial year. The impact from the revision has been accounted for prospectively as a change in accounting estimate.

(iv) Manufacturing licences

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

(v) Trade name

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

(vi) Intellectual property

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Research and development

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

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

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

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

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

### (j) Impairment of non-financial assets

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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.

### (l) Trade and other receivables

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

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

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

### (m) Cash and cash equivalents

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

### (n) Share capital

(i) Classification

Ordinary shares are classified as equity.

(ii) Share issue costs

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Share capital (continued)

(iii) Dividends distribution

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

(iv) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(v) Diluted earnings per share

Diluted earnings per share adjust the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (o) Borrowings and borrowing costs

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Borrowings and borrowing costs (continued)

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

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

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

### (q) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Employee benefits (continued)

(iii) Defined benefit plan

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

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

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

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

(iv) Option Plan

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Employee benefits (continued)

(iv) Option Plan (continued)

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

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

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

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

(v) Deferred shares – Long Term Incentive Plan

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Provisions

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

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

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

### (s) Revenue recognition

Revenue from contracts with customers

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

(i) Sale of goods

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Revenue recognition (continued)

Revenue from contracts with customers (continued)

(ii) Contracts

The Group enters into contract with customers to provide services such as system and equipment design, planning, installation and commissioning contracts. Contracts with customers may include multiple promises to customers and therefore accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. When these are not directly observable, they are estimated based on expected cost plus margin.

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

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

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

(iii) Management fees

The Company provides management services such as human resources management, accounting and finance services, secretarial services, legal services, taxation services and information technologies services to its subsidiaries. Revenue from providing services is recognised over the period in which the services are rendered.

Revenue from other sources

(i) Interest income

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

(ii) Dividend income

Dividend income is included in the profit or loss 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 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 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, 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

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

Recognition and derecognition

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

Measurement of financial asset at amortised cost

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

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

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

Equity instruments

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Offsetting financial instruments

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

### (w) Impairment of financial assets

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

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

The following indicators are incorporated:

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

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

The ECL approach can be classified into the categories below:

(i) Trade receivables

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Impairment of financial assets (continued)

The ECL approach can be classified into the categories below: (continued)

(ii) Other receivables and intercompany receivables

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

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

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

The Group and the Company consider a financial asset in default when contractual payments are past due. However, in certain cases, the Group and the Company may also consider a financial asset to be in default when internal or external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. A financial asset is written off to profit or loss when there is no reasonable expectation of recovering the contractual cash flows.

### (x) Financial liabilities

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

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

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Government grants

Grants from government are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are recognised in the profit or loss over the period necessary to match the related costs for which the grants are intended to compensate. When the grants relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

### (z) Contingent assets and liabilities

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

### (aa) Contract assets and liabilities

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ab) Leases

**Accounting policies applied from 1 January 2019**

The Group as a lessee

From 1 January 2019, leases are recognised as right-of-use ("ROU") assets and a corresponding liability at the date on which the leased asset is available for use by the Group (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Group is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

(i) Lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Group reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities (refer to (iv) below).

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ab) Leases (continued)

**Accounting policies applied from 1 January 2019 (continued)**

The Group as a lessee (continued)

(iii) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase and extension options if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. 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.

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Group presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in the statement of profit or loss.

(iv) Reassessment of lease liabilities

The Group is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

(v) Short-term leases and leases of low-value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ab) Leases (continued)

**Accounting policies applied from 1 January 2019 (continued)**

The Group as a lessor

The Group classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of underlying asset and recognised as an expense over the lease term on the same basis as lease income.

**Accounting policies applied until 31 December 2018**

The Group as a lessee

(i) Finance leases

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

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

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

(ii) Operating leases

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ac) Zakat

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

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment assessment of property, plant and equipment and intangible assets

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

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

Impairment assessment 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.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Recognition of deferred tax assets by the Group's small volume injectable subsidiary

As at 31 December 2019, the Group has deferred tax assets amounted to RM19.3 million relating to the small volume injectable subsidiary. The deferred tax assets arose from unutilised tax losses, unabsorbed capital allowances and deductible temporary differences. Deferred tax assets was recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unutilised tax losses or unabsorbed capital allowances can be utilised.

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

Recoverability of cost of investment in a small volume injectable subsidiary

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

Projected future cash flows are based on the Company's estimates calculated based on the operating results, approved business plans, sector and industry trends as well as future economic conditions, changes in technology and other available information. The key assumptions used, results and conclusion of the impairment assessment are stated in Note 15.

Impairment assessment of financial assets

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Revision in useful life of intangible asset ('rights to supply')

Under the Concession Agreement signed between Pharmaniaga Logistics Sdn Bhd ("Pharmaniaga Logistics") and the Government of Malaysia on 16 March 2011, Pharmaniaga Logistics is required to design, develop, supply, install, configure, test and commission, maintain and operate the Pharmacy Information System ("PhIS") and Clinic Pharmacy System ("CPS") (collectively referred to as "the Systems") which are required to be completed within the concession period. The title of the PhIS and CPS systems would vest with the Government of Malaysia.

Given the recent development surrounding the concession arrangement as disclosed in Notes 35(f) and 37, the Group has reassessed the remaining useful life of the 'rights to supply' intangible assets. Notwithstanding the Ministry of Health's decision of extending the Concession Agreement for a further 25 months, there remains uncertainty surrounding the actual concession period. Accordingly, the Group has decided to fully amortise this intangible asset by 31 December 2019. The impact of the revision in useful life has been accounted for prospectively as a change in estimate, resulting in the recognition of an amortisation charge of RM247,320,000 during the financial year ended 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 4 REVENUE

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Revenue consists of: | | | | | |
| Revenue from contracts with customers: | | | | | |
| – Contracts | 32(a) | **39,992** | 50,534 | **–** | – |
| – Sale of goods | | **2,780,538** | 2,334,422 | **–** | – |
| – Management fees | | **–** | – | **15,500** | 16,029 |
| Dividend income | | **–** | – | **35,000** | 113,500 |
| | | **2,820,530** | 2,384,956 | **50,500** | 129,529 |

Disaggregation of revenue from contracts with customers:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Geographical markets | | | | |
| – Malaysia | **2,008,859** | 1,673,640 | **15,500** | 16,029 |
| – Indonesia | **801,117** | 694,673 | **–** | – |
| – Other countries | **10,554** | 16,643 | **–** | – |
| | **2,820,530** | 2,384,956 | **15,500** | 16,029 |
| Timing of revenue recognition | | | | |
| – at a point in time | **2,780,538** | 2,334,422 | **–** | – |
| – over time | **39,992** | 50,534 | **15,500** | 16,029 |
| | **2,820,530** | 2,384,956 | **15,500** | 16,029 |

## 5 COST OF SALES

Cost of sales consists of:

| | Note | Group 2019 RM'000 | Group 2018 RM'000 |
|---|---|---|---|
| Amortisation of intangible assets | 16 | **247,496** | 18,713 |
| Depreciation of property, plant and equipment | 12 | **17,318** | 17,000 |
| Depreciation of right-of-use assets | 13(a) | **59** | – |
| Employee benefit expenses | 8 | **58,045** | 47,759 |
| Changes in inventories of finished goods | | **2,178,871** | 1,729,523 |
| Impairment of slow moving and obsolete inventories | | **5,639** | 6,584 |
| Inventories written down | | **232** | 2,883 |
| Raw materials and consumables used | | **117,137** | 141,078 |
| Selling and distribution costs | | **50,217** | 47,992 |
| Penalty charges | | **6,702** | 848 |
| Others | | **6,869** | 4,931 |
| | | **2,688,585** | 2,017,311 |
| Costs to fulfil contracts | 32(a) | **37,964** | 45,534 |
| | | **2,726,549** | 2,062,845 |

## 6 FINANCE COSTS

| | Group 2019 RM'000 | Group 2018 RM'000 | Company 2019 RM'000 | Company 2018 RM'000 |
|---|---|---|---|---|
| Interest expenses on: | | | | |
| – bankers' acceptances | **29,528** | 21,601 | **–** | – |
| – revolving credits | **10,317** | 14,471 | **5,056** | 6,373 |
| – interest and finance charges paid/ payable for lease liabilities | **413** | – | **–** | – |
| | **40,258** | 36,072 | **5,056** | 6,373 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 7 (LOSS)/PROFIT BEFORE ZAKAT AND TAXATION

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Amortisation of prepaid lease payments | 14 | **–** | 128 | **–** | – |
| Auditors' remuneration (statutory audit fees): | | | | | |
| – PricewaterhouseCoopers PLT, Malaysia | | **570** | 620 | **211** | 228 |
| – firms other than member firms of PricewaterhouseCoopers International Limited | | **158** | 203 | **–** | – |
| Bad debts written off | | **8** | – | **–** | – |
| Depreciation of right-of-use assets | 13(a) | **3,622** | – | **–** | – |
| Directors' fees: | | | | | |
| – Executive | 8 | **30** | 30 | **–** | – |
| – Non-executive | | **723** | 835 | **649** | 675 |
| Directors' other allowances and emoluments | | **92** | 47 | **83** | 37 |
| Employee benefit expenses | | **195,899** | 164,600 | **15,057** | 12,494 |
| Expenses arising from leases of low-value assets | | **3,371** | – | **–** | – |
| Foreign exchange losses | | **931** | 1,189 | **293** | – |
| Impairment loss on trade receivables | 18 | **1,632** | 824 | **–** | – |
| Impairment of amount due from a subsidiary | 20 | **–** | – | **818** | – |
| Impairment of slow moving and obsolete inventories | | **19,131** | 14,170 | **–** | – |
| Intangible assets: | | | | | |
| – amortisation* | 16 | **251,265** | 22,416 | **–** | – |
| – written off | 16 | **725** | 269 | **–** | – |
| Loss on disposal of property, plant and equipment | | **–** | 64 | **–** | – |
| Management fees paid/payable to immediate holding company | | **398** | 315 | **394** | 138 |
| Property, plant and equipment: | | | | | |
| – depreciation | 12 | **28,706** | 25,517 | **–** | – |
| – written off | 12 | **369** | 313 | **–** | – |

** Included in amortisation of intangible assets of the Group is the amortisation of 'rights to supply' of RM247,320,000 (2018: RM18,555,000)*

## 7 (LOSS)/PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Reversal of discounting effect on financial instruments | | **–** | (2,955) | **–** | (2,955) |
| Reversal of impairment loss on trade receivables | 18 | **(8,382)** | – | **–** | – |
| Rental of premises | | **–** | 3,875 | **5** | 8 |
| Rental of equipment | | **–** | 3,260 | **57** | 58 |

During the financial year, the Group incurred a total of RM23,517,000 (2018: RM14,492,000) for research and development expenses, of which RM11,847,000 (2018: RM7,109,000) has been recognised as capitalised development cost of work-in-progress under Intangible Assets as disclosed in Note 16.

(b) Other income

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Gain on disposal of property, plant and equipment | | **53** | 92 | **–** | – |
| Utilisation of government grant | 26 | **341** | 341 | **–** | – |
| Foreign exchange gains | | **475** | 158 | **–** | 35 |
| Others | | **376** | 368 | **–** | 2 |
| | | **1,245** | 959 | **–** | 37 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 8 EMPLOYEE BENEFIT EXPENSES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Salaries and bonuses | | **130,841** | 105,761 | **9,790** | 6,836 |
| Defined contribution plan | | **14,501** | 12,662 | **1,212** | 975 |
| Defined benefit plan | 31 | **1,838** | 1,173 | **–** | – |
| Share-based expenses: | | | | | |
| – Option Plan | | **363** | 1,449 | **363** | 1,449 |
| – Long Term Incentive Plan | | **2,169** | 2,359 | **878** | 48 |
| Other short-term employee benefits | | **44,284** | 38,908 | **911** | 898 |
| | | **193,996** | 162,312 | **13,154** | 10,206 |
| Executive Director's remuneration: | | | | | |
| – Salaries and bonuses | | **1,190** | 1,403 | **1,190** | 1,403 |
| – Fee | | **30** | 30 | **–** | – |
| – Defined contribution plan | | **188** | 232 | **188** | 232 |
| – Share-based expenses: | | | | | |
| • Option Plan | | **103** | 213 | **103** | 213 |
| • Long Term Incentive Plan | | **362** | 380 | **362** | 380 |
| – Other short-term employee benefits | | **60** | 60 | **60** | 60 |
| | | **1,933** | 2,318 | **1,903** | 2,288 |
| Total | | **195,929** | 164,630 | **15,057** | 12,494 |
| Employee benefit expenses included in: | | | | | |
| – cost of sales | 5 | **58,045** | 47,759 | **–** | – |
| – administrative expenses | | **137,854** | 116,841 | **15,057** | 12,494 |
| Executive Director's fee | 7(a) | **30** | 30 | **–** | – |
| | | **195,929** | 164,630 | **15,057** | 12,494 |

The estimated monetary value of benefits provided to a Director of the Company during the financial year amounted to RM37,200 (2018: RM37,200).

## 9 TAXATION

| | Note | Group 2019 RM'000 | Group 2018 RM'000 | Company 2019 RM'000 | Company 2018 RM'000 |
|---|---|---|---|---|---|
| Current tax: | | | | | |
| – Malaysian income tax | | **5,635** | 12,649 | **(1)** | 1 |
| – foreign income tax | | **1,271** | 1,974 | **–** | – |
| – (over)/under provision in prior years | | **(1,358)** | 5,570 | **1** | (1) |
| | | **5,548** | 20,193 | **–** | – |
| Deferred taxation: | | | | | |
| – origination and reversal of temporary differences | 30 | **(50,206)** | 5,726 | **–** | – |
| Tax (credit)/expense | | **(44,658)** | 25,919 | **–** | – |

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

| | Group 2019 RM'000 | Group 2018 RM'000 | Company 2019 RM'000 | Company 2018 RM'000 |
|---|---|---|---|---|
| (Loss)/Profit before taxation after zakat | **(194,105)** | 69,149 | **20,720** | 102,719 |
| Statutory income tax at rate of 24% (2018: 24%) | **(46,585)** | 16,596 | **4,973** | 24,653 |
| Different tax rates in other country | **(7)** | 74 | **–** | – |
| Tax effects of: | | | | |
| Expenses not deductible for tax purpose | **6,880** | 9,267 | **3,144** | 2,213 |
| Expenses subject to double deduction | **(4,463)** | (4,228) | **–** | – |
| Income not subject to tax | **(552)** | (914) | **(8,400)** | (28,032) |
| Origination of deductible temporary differences not recognised in current year | **1,427** | – | **282** | 1,167 |
| Utilisation of previously unrecognised deductible temporary differences | **–** | (446) | **–** | – |
| (Over)/Under provision of tax in prior years | **(1,358)** | 5,570 | **1** | (1) |
| Tax (credit)/expense | **(44,658)** | 25,919 | **–** | – |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 10 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

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

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| Net (loss)/profit attributable to owners of the Company (RM'000) | **(149,219)** | 42,468 |
| Weighted average number of ordinary shares in issue ('000) | **260,910** | 260,134 |
| Basic (loss)/earnings per share (sen) | **(57.19)** | 16.33 |

### (b) Diluted (loss)/earnings per share

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

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

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

## 10 (LOSS)/EARNINGS PER SHARE (CONTINUED)

### (b) Diluted (loss)/earnings per share (continued)

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| Net (loss)/profit attributable to owners of the Company (RM'000) | **(149,219)** | 42,468 |
| Weighted average number of ordinary shares in issue ('000) | **260,910** | 260,134 |
| Assumed shares issued under Long Term Incentive Plan ('000) | **916** | 641 |
| Weighted average number of ordinary shares in issue ('000) | **261,826** | 260,775 |
| Diluted (loss)/earnings per share (sen) | **(56.99)** | 16.29 |

## 11 DIVIDENDS

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

| | Company | | | |
|---|---|---|---|---|
| | **2019** | | **2018** | |
| | **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 2019: | | | | |
| – First interim single tier dividend | **6.0** | **15,630** | – | – |
| – Second interim single tier dividend | **2.5** | **6,531** | – | – |
| In respect of the financial year ended 31 December 2018: | | | | |
| – First interim single tier dividend | **–** | **–** | 5.0 | 12,991 |
| – Second interim single tier dividend | **–** | **–** | 4.0 | 10,421 |
| – Third interim single tier dividend | **–** | **–** | 5.0 | 13,025 |
| – Fourth interim single tier dividend | **2.0** | **5,210** | – | – |
| In respect of the financial year ended 31 December 2017: | | | | |
| – Fourth interim single tier dividend | **–** | **–** | 6.0 | 15,589 |
| | **10.5** | **27,371** | 20.0 | 52,026 |

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 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 2019 | | | | | | |
| Cost | **279,779** | **137,156** | **14,541** | **301,669** | **24,384** | **757,529** |
| Accumulated depreciation | **(102,637)** | **(102,643)** | **(11,246)** | **(158,735)** | **–** | **(375,261)** |
| Net book value | **177,142** | **34,513** | **3,295** | **142,934** | **24,384** | **382,268** |
| At 31 December 2018 | | | | | | |
| Cost | 303,418 | 130,868 | 12,545 | 288,658 | 24,212 | 759,701 |
| Accumulated depreciation | (101,435) | (94,614) | (9,788) | (147,457) | – | (353,294) |
| Net book value | 201,983 | 36,254 | 2,757 | 141,201 | 24,212 | 406,407 |
| At 1 January 2018 | | | | | | |
| Cost | 302,234 | 121,921 | 12,251 | 262,523 | 41,958 | 740,887 |
| Accumulated depreciation | (96,315) | (89,089) | (8,695) | (135,934) | – | (330,033) |
| Net book value | 205,919 | 32,832 | 3,556 | 126,589 | 41,958 | 410,854 |

## 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 2019 | | **201,983** | **36,254** | **2,757** | **141,201** | **24,212** | **406,407** |
| Adjustment for change in accounting policy (MFRS 16) | | **(22,979)** | **–** | **–** | **–** | **–** | **(22,979)** |
| As restated | | **179,004** | **36,254** | **2,757** | **141,201** | **24,212** | **383,428** |
| Additions | | **2,713** | **5,948** | **2,084** | **7,871** | **8,531** | **27,147** |
| Disposals | | **–** | **(16)** | **–** | **–** | **–** | **(16)** |
| Written off | 7(a) | **–** | **(129)** | **–** | **(232)** | **(8)** | **(369)** |
| Reclassification | | **566** | **528** | **–** | **7,433** | **(8,527)** | **–** |
| Depreciation charged | 7(a) | **(5,458)** | **(8,129)** | **(1,559)** | **(13,560)** | **–** | **(28,706)** |
| Foreign exchange adjustments | | **317** | **57** | **13** | **221** | **176** | **784** |
| At 31 December 2019 | | **177,142** | **34,513** | **3,295** | **142,934** | **24,384** | **382,268** |
| At 1 January 2018 | | 205,919 | 32,832 | 3,556 | 126,589 | 41,958 | 410,854 |
| Additions | | 1,116 | 4,657 | 670 | 5,605 | 10,067 | 22,115 |
| Disposals | | (8) | (33) | – | (28) | – | (69) |
| Written off | 7(a) | – | (295) | – | (18) | – | (313) |
| Reclassification | | 788 | 4,768 | – | 22,190 | (27,746) | – |
| Depreciation charged | 7(a) | (5,499) | (5,631) | (1,455) | (12,932) | – | (25,517) |
| Foreign exchange adjustments | | (333) | (44) | (14) | (205) | (67) | (663) |
| At 31 December 2018 | | 201,983 | 36,254 | 2,757 | 141,201 | 24,212 | 406,407 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings on freehold land RM'000 | Buildings on leasehold land RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Analysis of land and buildings: | | | | | |
| At 31 December 2019 | | | | | |
| Cost | **25,558** | **–** | **121,352** | **132,869** | **279,779** |
| Accumulated depreciation | **–** | **–** | **(39,353)** | **(63,284)** | **(102,637)** |
| Net book value | **25,558** | **–** | **81,999** | **69,585** | **177,142** |
| At 31 December 2018 | | | | | |
| Cost | 25,528 | 26,878 | 121,292 | 129,720 | 303,418 |
| Accumulated depreciation | – | (3,899) | (36,937) | (60,599) | (101,435) |
| Net book value | 25,528 | 22,979 | 84,355 | 69,121 | 201,983 |
| At 1 January 2018 | | | | | |
| Cost | 25,571 | 26,878 | 120,333 | 129,452 | 302,234 |
| Accumulated depreciation | – | (3,431) | (34,625) | (58,259) | (96,315) |
| Net book value | 25,571 | 23,447 | 85,708 | 71,193 | 205,919 |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Freehold land RM'000 | Leasehold land RM'000 | Buildings on freehold land RM'000 | Buildings on leasehold land RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Analysis of land and buildings: (continued) | | | | | |
| Movements in net book value | | | | | |
| At 1 January 2019 | **25,528** | **22,979** | **84,355** | **69,121** | **201,983** |
| Adjustment for change in accounting policy (MFRS16) | **–** | **(22,979)** | **–** | **–** | **(22,979)** |
| As restated | **25,528** | **–** | **84,355** | **69,121** | **179,004** |
| Additions | **–** | **–** | **–** | **2,713** | **2,713** |
| Reclassification | **–** | **–** | **–** | **566** | **566** |
| Depreciation charged | **–** | **–** | **(2,396)** | **(3,062)** | **(5,458)** |
| Foreign exchange adjustments | **30** | **–** | **40** | **247** | **317** |
| At 31 December 2019 | **25,558** | **–** | **81,999** | **69,585** | **177,142** |
| At 1 January 2018 | 25,571 | 23,447 | 85,708 | 71,193 | 205,919 |
| Additions | – | – | 982 | 134 | 1,116 |
| Disposals | – | – | – | (8) | (8) |
| Reclassification | 3 | – | 149 | 636 | 788 |
| Depreciation charged | – | (468) | (2,328) | (2,703) | (5,499) |
| Foreign exchange adjustments | (46) | – | (156) | (131) | (333) |
| At 31 December 2018 | 25,528 | 22,979 | 84,355 | 69,121 | 201,983 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Furniture and fittings RM'000 | Renovation RM'000 | Equipment RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Analysis of furniture, fittings, renovation and equipment: | | | | |
| At 31 December 2019 | | | | |
| Cost | **28,482** | **42,547** | **66,127** | **137,156** |
| Accumulated depreciation | **(23,840)** | **(30,072)** | **(48,731)** | **(102,643)** |
| Net book value | **4,642** | **12,475** | **17,396** | **34,513** |
| At 31 December 2018 | | | | |
| Cost | 28,548 | 39,720 | 62,600 | 130,868 |
| Accumulated depreciation | (23,034) | (27,106) | (44,474) | (94,614) |
| Net book value | 5,514 | 12,614 | 18,126 | 36,254 |
| At 1 January 2018 | | | | |
| Cost | 26,939 | 38,155 | 56,827 | 121,921 |
| Accumulated depreciation | (21,235) | (24,161) | (43,693) | (89,089) |
| Net book value | 5,704 | 13,994 | 13,134 | 32,832 |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Furniture and fittings RM'000 | Renovation RM'000 | Equipment RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Analysis of furniture, fittings, renovation and equipment: (continued) | | | | |
| Movements in net book value | | | | |
| At 1 January 2019 | **5,514** | **12,614** | **18,126** | **36,254** |
| Additions | **571** | **2,913** | **2,464** | **5,948** |
| Disposals | **–** | **(6)** | **(10)** | **(16)** |
| Written off | **(38)** | **(80)** | **(11)** | **(129)** |
| Reclassification | **(410)** | **–** | **938** | **528** |
| Depreciation charged | **(1,008)** | **(2,969)** | **(4,152)** | **(8,129)** |
| Foreign exchange adjustments | **13** | **3** | **41** | **57** |
| At 31 December 2019 | **4,642** | **12,475** | **17,396** | **34,513** |
| At 1 January 2018 | 5,704 | 13,994 | 13,134 | 32,832 |
| Additions | 788 | 1,428 | 2,441 | 4,657 |
| Disposals | (29) | – | (4) | (33) |
| Written off | (30) | (264) | (1) | (295) |
| Reclassification | 235 | 386 | 4,147 | 4,768 |
| Depreciation charged | (1,145) | (2,907) | (1,579) | (5,631) |
| Foreign exchange adjustments | (9) | (23) | (12) | (44) |
| At 31 December 2018 | 5,514 | 12,614 | 18,126 | 36,254 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the financial year, depreciation of RM17,318,000 (2018: RM17,000,000) is included in 'cost of sales' and RM11,388,000 (2018: RM8,517,000) in 'administrative expenses' in profit or loss.

Leasehold land were included in property, plant and equipment until 31 December 2018, but were reclassified to 'right-of-use' assets on 1 January 2019 upon the adoption of MFRS 16 Leases.

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 | |
|---|---|---|
| | **2019** **RM'000** | **2018** **RM'000** |
| Plant and machinery | **344** | 497 |
| Equipment | **1,048** | 995 |
| Motor vehicle | **359** | 62 |
| | **1,751** | 1,554 |

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

| | Group | |
|---|---|---|
| | **2019** **RM'000** | **2018** **RM'000** |
| Acquisition of property, plant and equipment during the financial year | **27,147** | 22,115 |
| Less: Accrual of property, plant and equipment | **(9,305)** | (3,399) |
| Less: Acquired through hire purchase arrangements | **(678)** | (982) |
| Add: Payments for property, plant and equipment purchased in prior year | **3,399** | 491 |
| Less: Payments made in prior year for asset delivered during the financial year | **(187)** | (959) |
| Net cash outflows for the acquisition of property, plant and equipment | **20,376** | 17,266 |

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

An impairment assessment was undertaken in the current financial year for the Group's small volume injectable production plant as the plant has not been utilised at its maximum capacity as most of the products are still at developing stage.

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The carrying amount of assets totalling RM137.4 million (2018: RM140.1 million) comprising property, plant and equipment and capitalised development costs of work-in-progress, capitalised development cost and software included in intangible assets as disclosed in Note 16 of RM127.6 million and RM9.8 million (2018: RM130.7 million and RM9.4 million) respectively within the manufacturing segment were tested for impairment.

The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a twelve-year period that reflects the industry and product lifecycle from development, stability testing, product registration and commercialisation. The sales volume used in the value-in-use calculations is based on the respective product lifecycle and new products under development. The twelve-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 product margins based on past experience, current assessment of market share and expectations of market growth.

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

- Business analysis – The cash-generating unit makes assumptions about the demand for its existing products and new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation. The cash-generating unit also makes assumptions about cost levels determined based on the average inflation rate in Malaysia. The projected sales volume growth rates and product margins range between 2.1% to >100% (2018: 0.0% to 20.0%) per annum and 0.0% to 30.3% (2018: 5.0% to 28.0%) respectively.

- Values of land and buildings – The estimated value of the land of RM42.3 million (2018: RM42.3 million) is based on an independent external valuation. The value for the building and other property, plant and equipment is expected to be nil as these assets would be fully depreciated and scrapped at the end of the useful life with minimal terminal value.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 10.0% (2018: 11.6%) per annum has been applied. The discount rate reflects the prevailing market rate applicable to the industry adjusted for the risk of the assets.

No impairment loss was required for property, plant and equipment and capitalised development costs included within intangible assets as at 31 December 2019 as the recoverable amount of the small value injectable production plant cash generating unit is in excess of its carrying amount.

There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of the property, plant and equipment and capitalised development costs included within intangible assets to materially exceed the recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 13 LEASES

### (a) Right-of-use assets

| | Leasehold land RM'000 | Buildings RM'000 | Total RM'000 |
|---|---|---|---|
| **Group** | | | |
| At 31 December 2019 | | | |
| Cost | **30,209** | **6,348** | **36,557** |
| Accumulated depreciation | **(5,691)** | **(3,024)** | **(8,715)** |
| Net book value | **24,518** | **3,324** | **27,842** |
| At 1 January 2019 | | | |
| Cost | 30,171 | 5,640 | 35,811 |
| Accumulated depreciation | (5,094) | – | (5,094) |
| Net book value | 25,077 | 5,640 | 30,717 |
| Movements in net book value | | | |
| At 1 January 2019, upon adoption of MFRS 16 based on modified retrospective approach | **25,077** | **5,640** | **30,717** |
| Additions | **–** | **1,233** | **1,233** |
| Depreciation charged (Note 7(a)) | **(598)** | **(3,024)** | **(3,622)** |
| Derecognition | **–** | **(525)** | **(525)** |
| Foreign exchange adjustments | **39** | **–** | **39** |
| At 31 December 2019 | **24,518** | **3,324** | **27,842** |

During the financial year, depreciation of RM59,000 is included in 'cost of sales' and RM3,563,000 in 'administrative expenses' in profit or loss.

The Group leases the land for a period of 20 years to 99 years. Rental contracts for buildings are typically made for fixed periods ranging from 1 to 4 years, but may have extension or termination options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

## 13 LEASES (CONTINUED)

### (b) Lease liabilities

| | Group | |
|---|---|---|
| | **2019 RM'000** | **1 January 2019 RM'000** |
| Current | **1,457** | 2,842 |
| Non-current | **2,125** | 2,798 |
| | **3,582** | 5,640 |

Reconciliation of lease liabilities

The following table illustrates the changes in lease liabilities, including both changes arising from cash flows and non-cash changes during the financial year:

| | **At 1 January 2019 RM'000** | **Net cash flow RM'000** | **Interest charges RM'000** | **Acquisition/ reassessment of ROU RM'000** | **Foreign exchange movement RM'000** | **At 31 December 2019 RM'000** |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Lease liabilities | 5,640 | (3,242) | 413 | 708 | 63 | 3,582 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 14 PREPAID LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Cost | **–** | 3,293 |
| Accumulated amortisation | **–** | (1,195) |
| Net book value | **–** | 2,098 |
| Movements in net book value | | |
| At 1 January | | |
| – as previously stated | **2,098** | 2,281 |
| – adjustment for change in accounting policy (MFRS 16) | **(2,098)** | – |
| As restated | **–** | 2,281 |
| Amortisation during the financial year (Note 7(a)) | **–** | (128) |
| Foreign exchange adjustments | **–** | (55) |
| At 31 December | **–** | 2,098 |

Prepaid lease payments were presented separately in the statement of financial position until 31 December 2018, but were reclassified to 'right-of-use' assets on 1 January 2019 upon the adoption of MFRS 16 Leases.

## 15 SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Investment in subsidiaries: | | |
| Unquoted shares, at cost | **586,954** | 586,954 |
| Less: Accumulated impairment | **(378)** | (378) |
| | **586,576** | 586,576 |
| Capital contribution to subsidiaries | **7,578** | 5,910 |
| | **594,154** | 592,486 |

## 15 SUBSIDIARIES (CONTINUED)

### Capital contribution to subsidiaries

The fair value of deferred shares granted to selected Senior Management Officers of subsidiaries of the Company in respect of the Company's share scheme is treated as capital contributions to the subsidiaries.

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

| | | | Effective equity interest (%) | |
|---|---|---|---|---|
| **Name of Company** | **Principal activities** | **Paid-up capital** | **2019** | **2018** |
| **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 | RM10,015,000 | **100** | 100 |
| Pharmaniaga LifeScience Sdn. Bhd. | Manufacture and sale of pharmaceutical products | RM200,000,000 | **100** | 100 |
| Pharmaniaga Logistics Sdn. Bhd. | Distribution of pharmaceutical and medical products | RM40,000,000 | **100** | 100 |
| Pharmaniaga Marketing Sdn. Bhd. | Trading and marketing of pharmaceutical and medical products | RM3,000,000 | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 15 SUBSIDIARIES (CONTINUED)

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

| | | | Effective equity interest (%) | |
|---|---|---|---|---|
| **Name of Company** | **Principal activities** | **Paid-up capital** | **2019** | **2018** |
| **Subsidiaries of the Company (continued)** | | | | |
| Pharmaniaga Research Centre Sdn. Bhd. | Conduct research and development of pharmaceutical products | RM10,000,000 | **100** | 100 |
| Pristine Pharma Sdn. Bhd. (f.k.a. Pharmaniaga Pristine Sdn. Bhd.) | Trading and wholesaling of consumer products | RM20,000,050 | **100** | 100 |
| Bio-Collagen Technologies Sdn. Bhd. | Research and manufacture of collagen medical devices (dressings) for wound management application | RM2,000,000 | **70** | 70 |
| Pharmaniaga International Corporation Sdn. Bhd. | Investment holding | RM103,000,000 | **100** | 100 |
| Pharmaniaga Pegasus (Seychelles) Co. Ltd. @ | Dormant | USD100,000 | **100** | 100 |
| **Subsidiary of Pharmaniaga Logistics Sdn. Bhd.** | | | | |
| Pharmaniaga Biomedical Sdn. Bhd. | Supply, trading and installation of medical and hospital equipment | RM8,000,000 | **100** | 100 |
| **Subsidiary of Pristine Pharma Sdn. Bhd.** | | | | |
| Paradigm Industry Sdn. Bhd. | Manufacture and sale of food supplements | RM100,000 | **80** | 80 |

## 15 SUBSIDIARIES (CONTINUED)

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

| | | | Effective equity interest (%) | |
|---|---|---|---|---|
| **Name of Company** | **Principal activities** | **Paid-up capital** | **2019** | **2018** |
| **Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd.** | | | | |
| PT Millennium Pharmacon International Tbk *# ("PT MPI") | Distribution and trading of pharmaceutical products, food supplements and diagnostic products in Indonesia | IDR127,400,000,000 | **73** | 73 |
| PT Mega Pharmaniaga *# ("PT MegPha") | Dormant | IDR11,372,400,000 | **95** | 95 |
| PT Errita Pharma *# ("PT Errita") | Manufacture and sale of pharmaceutical products in Indonesia | IDR95,832,000,000 | **96** | 96 |

* Audited by firms other than member firms of PricewaterhouseCoopers International Limited and PricewaterhouseCoopers PLT, Malaysia

@ Incorporated in Republic of Seychelles

\# Incorporated in Indonesia

<u>Impairment assessment for cost of investment in Pharmaniaga LifeScience Sdn. Bhd. ("PLS")</u>

As described in Note 12, the Company has undertaken an impairment assessment in the current financial year for its investment in PLS of RM200.0 million that operates small volume injectable production plant using the same discounted future cash flows, adjusted for tax and repayment of intercompany balances. In measuring the recoverable amount determined based on value-in-use calculations, discount rate of 13.3% (2018: 13.5%) per annum, representing the cost of equity has been applied. Refer to Note 12 for the other key assumptions used in the projections.

No impairment loss was required for the investment in the subsidiary as at 31 December 2019 as the recoverable amount is in excess of its carrying amount.

There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of the cost of investment to materially exceed the recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 15 SUBSIDIARIES (CONTINUED)

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

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

**Summarised statement of financial position**

| | PT MPI | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Current | | |
| Assets | **333,853** | 322,406 |
| Liabilities | **(274,443)** | (266,373) |
| Total current net assets | **59,410** | 56,033 |
| Non-current | | |
| Assets | **24,591** | 23,806 |
| Liabilities | **(8,574)** | (7,159) |
| Total non-current net assets | **16,017** | 16,647 |
| Net assets | **75,427** | 72,680 |
| Net assets attributable to non-controlling interests at the end of the financial year | **20,064** | 19,333 |
| Proportion of effective equity interests held by non-controlling interests (%) | **27** | 27 |

## 15 SUBSIDIARIES (CONTINUED)

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

**Summarised statement of profit or loss and statement of comprehensive income**

| | PT MPI | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Revenue | **795,064** | 676,074 |
| Profit before taxation | **4,658** | 7,608 |
| Taxation | **(1,559)** | (2,117) |
| Net profit for the financial year | **3,099** | 5,491 |
| Other comprehensive income/(loss) | **622** | (855) |
| Total comprehensive income, net of tax for the financial year | **3,721** | 4,636 |
| Net profit for the financial year allocated to non-controlling interests | **824** | 1,461 |
| Total comprehensive income allocated to non-controlling interests | **990** | 1,233 |
| Dividend paid to non-controlling interests | **259** | 243 |

**Summarised statement of cash flows**

| | | |
|---|---|---|
| Cash used in operations | **(2,661)** | (15,129) |
| Interest paid | **(15,860)** | (9,998) |
| Net tax paid | **(3,116)** | (635) |
| Net cash used in operating activities | **(21,637)** | (25,762) |
| Net cash used in investing activities | **(2,923)** | (1,567) |
| Net cash generated from financing activities | **20,948** | 21,738 |
| Net changes in cash and cash equivalents | **(3,612)** | (5,591) |
| Cash and cash equivalents at beginning of financial year | **10,854** | 16,901 |
| Foreign exchange differences | **259** | (456) |
| Cash and cash equivalents at end of financial year | **7,501** | 10,854 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 16 INTANGIBLE ASSETS

| Group | Note | Goodwill RM'000 | Software RM'000 | Rights to supply RM'000 | Capitalised development cost of work-in-progress RM'000 | Capitalised development cost RM'000 | Manu-facturing licences RM'000 | Trade name RM'000 | Intellectual property RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| At 1 January 2019 | | 144,131 | 23,579 | 304,825 | 24,798 | 2,637 | 16,728 | 3,832 | 3,071 | 523,601 |
| Additions | | – | – | 38,040 | 11,847 | – | – | – | – | 49,887 |
| Foreign exchange adjustments | | 1,305 | 103 | – | 47 | – | 389 | 92 | – | 1,936 |
| Written off | 7(a) | – | – | – | (725) | – | – | – | – | (725) |
| At 31 December 2019 | | 145,436 | 23,682 | 342,865 | 35,967 | 2,637 | 17,117 | 3,924 | 3,071 | 574,699 |
| Less: Accumulated amortisation | | | | | | | | | | |
| At 1 January 2019 | | – | 5,057 | 95,545 | – | 176 | 7,822 | 1,064 | 392 | 110,056 |
| Amortisation charged | 7(a) | – | 1,356 | 247,320 | – | 176 | 1,948 | 259 | 206 | 251,265 |
| Foreign exchange adjustments | | – | 103 | – | – | – | 245 | 35 | – | 383 |
| At 31 December 2019 | | – | 6,516 | 342,865 | – | 352 | 10,015 | 1,358 | 598 | 361,704 |
| Less: Accumulated impairment | | | | | | | | | | |
| At 1 January 2019/ 31 December 2019 | | 12,653 | – | – | – | – | – | – | – | 12,653 |
| Net book value | | | | | | | | | | |
| At 31 December 2019 | | 132,783 | 17,166 | – | 35,967 | 2,285 | 7,102 | 2,566 | 2,473 | 200,342 |

## 16 INTANGIBLE ASSETS (CONTINUED)

| Group | Note | Goodwill RM'000 | Software RM'000 | Rights to supply RM'000 | Capitalised development cost of work-in-progress RM'000 | Capitalised development cost RM'000 | Manu-facturing licences RM'000 | Trade name RM'000 | Intellectual property RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| At 1 January 2018 | | 145,995 | 17,731 | 258,980 | 20,429 | 166 | 17,285 | 3,963 | 3,063 | 467,612 |
| Additions | | – | 5,995 | 45,845 | 6,948 | 161 | – | – | 8 | 58,957 |
| Reclassification | | – | – | – | (2,310) | 2,310 | – | – | – | – |
| Foreign exchange adjustments | | (1,864) | (147) | – | – | – | (557) | (131) | – | (2,699) |
| Written off | 7(a) | – | – | – | (269) | – | – | – | – | (269) |
| At 31 December 2018 | | 144,131 | 23,579 | 304,825 | 24,798 | 2,637 | 16,728 | 3,832 | 3,071 | 523,601 |
| Less: Accumulated amortisation | | | | | | | | | | |
| At 1 January 2018 | | – | 3,873 | 76,990 | – | 18 | 7,462 | 1,035 | 187 | 89,565 |
| Amortisation charged | 7(a) | – | 1,330 | 18,555 | – | 158 | 1,916 | 252 | 205 | 22,416 |
| Foreign exchange adjustments | | – | (146) | – | – | – | (1,556) | (223) | – | (1,925) |
| At 31 December 2018 | | – | 5,057 | 95,545 | – | 176 | 7,822 | 1,064 | 392 | 110,056 |
| Less: Accumulated impairment | | | | | | | | | | |
| At 1 January 2018/ 31 December 2018 | | 12,653 | – | – | – | – | – | – | – | 12,653 |
| Net book value | | | | | | | | | | |
| At 31 December 2018 | | 131,478 | 18,522 | 209,280 | 24,798 | 2,461 | 8,906 | 2,768 | 2,679 | 400,892 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 16 INTANGIBLE ASSETS (CONTINUED)

During the financial year, amortisation of RM247,496,000 (2018: RM18,713,000) is included in 'cost of sales' and RM3,769,000 (2018: RM3,703,000) in 'administrative expenses' in profit or loss.

The net cash outflows for the acquisition of intangible assets during the financial year are as follows:

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Additions during the financial year | **49,887** | 58,957 |
| Less: Accrual of intangible assets | **(7,907)** | (10,392) |
| Add: Payment for intangible assets acquired in prior year | **10,392** | 6,023 |
| Net cash outflows on the acquisition of intangible assets | **52,372** | 54,588 |

Impairment assessment for goodwill

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

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Malaysia | | |
| Trading and distribution | **16,839** | 16,839 |
| Manufacturing | **60,953** | 60,953 |
| Indonesia | | |
| Trading and distribution | **2,400** | 2,343 |
| Manufacturing | **52,591** | 51,343 |
| Total | **132,783** | 131,478 |

No impairment loss was required for the carrying amounts of goodwill assessed as at 31 December 2019 as the recoverable amounts of the CGUs are in excess of their carrying amounts.

The recoverable amounts of the CGUs are determined based on value-in-use ("VIU") calculations. Cash flows are derived from financial budgets approved by the Directors covering a fifteen-year period that reflects the product lifecycle. The projections reflect management's expectation of sales volume growth and product margins for the CGUs based on current assessment of market share and expectations of market growth and the continuity of the concession agreement with the government.

## 16 INTANGIBLE ASSETS (CONTINUED)

The key assumptions used in VIU calculations are as follows:

| | Malaysia | | Indonesia | |
|---|---|---|---|---|
| | Trading and distribution % | Manufacturing % | Trading and distribution % | Manufacturing % |
| **2019** | | | | |
| Sales volume growth rate by product | **0.0 to 4.6** | **0.0 to >100** | **6.0 to 19.7** | **10.0 to 60.2** |
| Product margins | **5.8 to 8.3** | **7.3 to 57.5** | **7.3 to 7.7** | **10.1 to 24.1** |
| Discount rate | **9.6** | **10.0** | **13.4** | **16.4** |
| **2018** | | | | |
| Sales volume growth rate by product | 7.1 to 31.5 | 5.0 to 55.2 | 14.4 to 24.5 | 10.0 to 48.5 |
| Product margins | 6.5 to 7.2 | 32.0 to 97.7 | 8.0 | 11.4 to 33.3 |
| Discount rate | 11.1 | 11.6 | 13.2 | 15.6 |

(i) Sales volume growth rate is the average growth rate by product over the forecast period based on past performance and management's expectation of market development.

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

(iii) Terminal growth rate of 0.0% (2018: 0.0%) that reflects long term growth forecast is applied in the VIU calculations.

(iv) Discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, the Directors concluded that no reasonable possible change in the base case assumptions would cause the carrying amounts of the CGUs to exceed their recoverable amounts.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 16 INTANGIBLE ASSETS (CONTINUED)

Impairment assessment for capitalised development costs of work-in-progress

(a) Capitalised development costs of work-in-progress in relation to the small volume injectable production plant within the manufacturing segment.

As at 31 December 2019, the capitalised development costs of work-in-progress in relation to the small volume injectable production plant of RM6.9 million (2018: RM6.3 million) had been assessed together with the related property, plant and equipment as disclosed in Note 12 and other intangible assets. The capitalised development costs of work-in-progress is subject to annual impairment testing.

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

As at 31 December 2019, the capitalised development costs of work-in-progress of RM29.0 million (2018: RM18.5 million) together with related property, plant and equipment of RM166.9 million (2018: RM165.4 million), goodwill of RM113.5 million (2018: RM112.3 million) and other intangible assets of RM8.8 million (2018: RM9.5 million) in relation to other cash-generating units were tested for impairment. The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

The value-in-use calculations apply a discounted cash flow model using cash flow projections covering a period of ten to twenty years 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 product margins based on past experience, current assessment of market share, expectations of market growth and industry growth.

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

- Business analysis – The cash-generating unit makes assumptions about the demand for these new products under development in the market place and the continuity of the concession agreement with the government. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation using a projected sales volume growth rate of 0.0% to 68.3% (2018: 3.0% to 48.5%) per annum.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 10.0% (2018: 11.6%) per annum has been applied. The discount rate reflects the prevailing market rate applicable to the industry adjusted for the risk of the assets.

No impairment was required as at 31 December 2019 as their recoverable amounts are in excess of their carrying amounts.

## 17 INVENTORIES

| | Group | |
|---|---|---|
| | **2019** **RM'000** | **2018** **RM'000** |
| Raw materials | **46,063** | 43,560 |
| Packaging materials | **23,066** | 22,703 |
| Work-in-progress | **5,511** | 6,334 |
| Finished goods | **543,269** | 620,423 |
| | **617,909** | 693,020 |

## 18 TRADE RECEIVABLES AND CONTRACT ASSETS

| | Group | |
|---|---|---|
| | **2019** **RM'000** | **2018** **RM'000** |
| Current | | |
| Trade receivables | **215,500** | 233,379 |
| Less: Provision for impairment | **(11,400)** | (10,603) |
| | **204,100** | 222,776 |
| Contract assets (Note 32(a)) | **–** | 3 |
| | **204,100** | 222,779 |
| Non-current | | |
| Trade receivables | **2,435** | 10,817 |
| Less: Provision for impairment | **(2,435)** | (10,817) |
| | **–** | – |

The credit terms of trade receivables range from 30 days to 120 days (2018: 30 days to 120 days).

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 18 TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

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

| | Group | | |
|---|---|---|---|
| | **Lifetime ECL (Collective assessment) RM'000** | **Lifetime ECL (Individual assessment) RM'000** | **Total RM'000** |
| **2019** | | | |
| At 1 January 2019 | **5,137** | **16,283** | **21,420** |
| Provision for impairment during the financial year (Note 7(a)) | **1,632** | **–** | **1,632** |
| Reversal of impairment previously provided (Note 7(a)) | **–** | **(8,382)** | **(8,382)** |
| Written off | **(1,056)** | **–** | **(1,056)** |
| Foreign exchange differences | **221** | **–** | **221** |
| At 31 December 2019 | **5,934** | **7,901** | **13,835** |
| **2018** | | | |
| At 1 January 2018 | 4,664 | 16,283 | 20,947 |
| Provision for impairment during the financial year (Note 7(a)) | 824 | – | 824 |
| Written off | (6) | – | (6) |
| Foreign exchange differences | (345) | – | (345) |
| At 31 December 2018 | 5,137 | 16,283 | 21,420 |

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

Information about the impairment of trade receivables and contract assets and the exposure to credit risk is disclosed in Note 36.

## 19 OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Current | | | | |
| Other receivables | **3,322** | 25,072 | **–** | 10,331 |
| Prepayments | **19,142** | 15,294 | **7** | 86 |
| Deposits | **5,020** | 5,075 | **–** | – |
| GST/VAT recoverable | **35,548** | 43,696 | **–** | – |
| | **63,032** | 89,137 | **7** | 10,417 |
| Non-current | | | | |
| Other receivables | **3,188** | 3,188 | **–** | – |
| Less: Provision for impairment | **(3,188)** | (3,188) | **–** | – |
| | **–** | – | **–** | – |

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

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| At 1 January/31 December | **3,188** | 3,188 |

Information about the impairment of other receivables and the exposure to credit risk is disclosed in Note 36.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

| | Company | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Current | | |
| Amounts due from subsidiaries | **93,651** | 88,204 |
| Less: Provision for impairment | **(24,135)** | (24,135) |
| Amounts due from subsidiaries – net | **69,516** | 64,069 |
| Non-current | | |
| Amounts due from subsidiaries | **60,540** | 59,807 |
| Less: Provision for impairment | **(37,420)** | (36,602) |
| Amounts due from subsidiaries – net | **23,120** | 23,205 |

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

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

| | Company | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| At 1 January | **60,737** | 60,737 |
| Provision for impairment during the financial year (Note 7(a)) | **818** | – |
| At 31 December | **61,555** | 60,737 |

(b) Amounts due to subsidiaries

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

Dividend income from subsidiaries totalling RM35.0 million (2018: RM113.5 million) during the financial year was set off against amounts due to subsidiaries.

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

## 21 DEPOSITS, CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Cash and bank balances | **17,454** | 22,531 | **487** | 336 |
| Deposits with licensed banks | **12,133** | 13,124 | **–** | – |
| Total deposits, cash and bank balances | **29,587** | 35,655 | **487** | 336 |
| Less: Deposits maturing more than three (3) months | **(4,834)** | (4,829) | **–** | – |
| Less: Bank overdraft (Note 27) | **(1,803)** | – | **–** | – |
| Total cash and cash equivalents at the end of the financial year | **22,950** | 30,826 | **487** | 336 |

Cash and bank balances are deposits held at call with banks and earn no interest except for bank balances amounting to RM1.3 million (2018: RM1.4 million) that earn interest at 2.6% (2018: 2.8%) per annum.

The effective interest rates on deposits with licensed banks for the Group range from 1.5% to 3.0% (2018: 1.5% to 3.2%) per annum with original maturity dates range from 3 days to 365 days (2018: 3 days to 365 days).

## 22 AMOUNTS DUE TO RELATED COMPANIES

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

## 23 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2018: 30 days to 120 days).

## 24 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Other payables | **51,793** | 49,883 | **2,336** | 2,186 |
| Accruals | **23,493** | 21,150 | **405** | 1,248 |
| | **75,286** | 71,033 | **2,741** | 3,434 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 25 AMOUNT DUE FROM/(TO) IMMEDIATE HOLDING COMPANY

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

The amount due to immediate holding company arose from management fees and payments made on behalf. This amount is unsecured, interest free and repayable on demand.

## 26 GOVERNMENT GRANTS

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| At 1 January | **4,971** | 5,178 |
| Additions during the financial year | **–** | 134 |
| Recognition during the financial year | **(341)** | (341) |
| At 31 December | **4,630** | 4,971 |
| Analysed as: | | |
| – Current | **341** | 341 |
| – Non-current | **4,289** | 4,630 |
| | **4,630** | 4,971 |

Government grants relate to monies received from certain government agencies to fund the purchase of certain intangible assets and property, plant and equipment of the Group.

## 27 BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Current | | | | |
| Unsecured: | | | | |
| – Bankers' acceptances | **412,813** | 392,263 | **–** | – |
| – Revolving credits | **150,000** | 250,000 | **50,000** | 200,000 |
| – Bank overdraft (Note 21) | **1,803** | – | **–** | – |
| | **564,616** | 642,263 | **50,000** | 200,000 |
| Secured: | | | | |
| – Hire purchase | **365** | 482 | **–** | – |
| | **564,981** | 642,745 | **50,000** | 200,000 |
| Non-current | | | | |
| Secured: | | | | |
| – Hire purchase | **316** | 102 | **–** | – |
| Total | **565,297** | 642,847 | **50,000** | 200,000 |
| Bankers' acceptances | **412,813** | 392,263 | **–** | – |
| Revolving credits | **150,000** | 250,000 | **50,000** | 200,000 |
| Bank overdraft | **1,803** | – | **–** | – |
| Hire purchase | **681** | 584 | **–** | – |
| **Total** | **565,297** | 642,847 | **50,000** | 200,000 |

**Hire purchase liabilities**

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Minimum lease payments: | | |
| – Payable within 1 year | **401** | 512 |
| – Payable between 1 and 5 years | **392** | 109 |
| | **793** | 621 |
| Less: Future finance charges | **(112)** | (37) |
| Present value of liabilities | **681** | 584 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 27 BORROWINGS (CONTINUED)

**Borrowings' maturity and interest rate analysis**

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

| Group | Effective interest rate at year end % per annum | Repayment terms <1 year RM'000 | Repayment terms >1 year RM'000 | Total carrying amount RM'000 |
|---|---|---|---|---|
| At 31 December 2019 | | | | |
| Bankers' acceptances | **6.23** | **412,813** | **–** | **412,813** |
| Revolving credits | **4.66** | **150,000** | **–** | **150,000** |
| Hire purchase | **3.98** | **365** | **316** | **681** |
| Bank overdraft | **10.30** | **1,803** | **–** | **1,803** |
| | | **564,981** | **316** | **565,297** |
| At 31 December 2018 | | | | |
| Bankers' acceptances | 6.12 | 392,263 | – | 392,263 |
| Revolving credits | 4.75 | 250,000 | – | 250,000 |
| Hire purchase | 3.98 | 482 | 102 | 584 |
| | | 642,745 | 102 | 642,847 |
| **Company** | | | | |
| At 31 December 2019 | | | | |
| Revolving credits | **4.75** | **50,000** | **–** | **50,000** |
| At 31 December 2018 | | | | |
| Revolving credits | 4.95 | 200,000 | – | 200,000 |

## 27 BORROWINGS (CONTINUED)

**Reconciliation of liabilities arising from financing activities**

The following table illustrates the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes during the financial year:

| Group | At 1 January 2019 RM'000 | Net cash flows RM'000 | Acquisition of PPE RM'000 | Foreign exchange movement RM'000 | At 31 December 2019 RM'000 |
|---|---|---|---|---|---|
| Borrowings | **642,263** | **(80,797)** | **–** | **3,150** | **564,616** |
| Hire purchase liabilities | **584** | **(581)** | **678** | **–** | **681** |
| Total liabilities from financing activities | **642,847** | **(81,378)** | **678** | **3,150** | **565,297** |

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

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 27 BORROWINGS (CONTINUED)

| Company | At 1 January 2019 RM'000 | Net cash flows RM'000 | Non-cash transactions RM'000 | At 31 December 2019 RM'000 |
|---|---|---|---|---|
| Borrowings | **200,000** | **(150,000)** | **–** | **50,000** |
| Amounts due to subsidiaries | **22,197** | **198,890** | **(35,000)** | **186,087** |
| Total liabilities from financing activities | **222,197** | **48,890** | **(35,000)** | **236,087** |

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

## 27 BORROWINGS (CONTINUED)

### Fair value

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

### Currency profile

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Ringgit Malaysia | **404,540** | 505,933 | **50,000** | 200,000 |
| Indonesian Rupiah | **160,757** | 136,914 | **–** | – |
| | **565,297** | 642,847 | **50,000** | 200,000 |

### Undrawn borrowings facilities

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Bankers' acceptances | **363,187** | 228,137 | **–** | – |
| Revolving credits | **325,000** | 150,000 | **150,000** | – |
| Bank overdraft | **1,167** | 2,880 | **–** | – |
| | **689,354** | 381,017 | **150,000** | – |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 28 SHARE CAPITAL

| | Company | | | |
|---|---|---|---|---|
| | Number of shares | | Amount | |
| | 2019 '000 | 2018 '000 | 2019 RM'000 | 2018 RM'000 |
| Issued and fully paid ordinary shares with no par value: | | | | |
| At 1 January | **260,505** | 259,821 | **149,401** | 146,213 |
| Issuance during the financial year arising from: | | | | |
| – Long Term Incentive Plan | **725** | 684 | **2,478** | 3,188 |
| At 31 December | **261,230** | 260,505 | **151,879** | 149,401 |

## 29 SHARE RESERVES

(a) Option Plan

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Option Plan | **5,631** | 6,519 | **5,631** | 6,519 |
| Long Term Incentive Plan | **1,560** | 1,496 | **542** | 113 |
| | **7,191** | 8,015 | **6,173** | 6,632 |

An Option Plan was implemented on 13 May 2016 for the benefit of Directors and selected Senior Management Officers ("Eligible Employees") of the Group. The Option Plan shall be in force for a period of 5 years. The fair value of each share option on the grant date was RM0.71. The options are to be settled only by the issuance and allocation of new ordinary shares of the Company. There are no cash settlement alternatives.

The exercise price of the share options granted under the Option Plan is RM5.04 each. The options granted are divided into 5 equal tranches which vest on 16 May 2016, 16 May 2017, 16 May 2018, 16 May 2019 and 16 May 2020. The vesting condition is that the offeree must be an employee or Director, as the case may be, of the Company or its subsidiaries on the respective vesting and exercise dates. The options shall expire on 14 May 2021.

## 29 SHARE RESERVES (CONTINUED)

(a) Option Plan (continued)

Movements of share options during the financial year

The following table illustrates the number of, and movements in, share options of the Company during the financial year:

| | Number of share options | |
|---|---|---|
| | **2019** **'000** | **2018** **'000** |
| At 1 January | **10,040** | 15,640 |
| Forfeiture | **(2,000)** | (5,600) |
| 31 December | **8,040** | 10,040 |
| Exercisable at 31 December | **12,547** | 9,454 |

The fair value of the Option granted in previous financial years was accounted for in accordance with MFRS 2 Share-based Payments, were determined using the Binomial valuation model. The significant inputs in the model are as follows:

| | |
|---|---|
| Fair value per option | RM0.71 |
| Exercise price | RM5.04 |
| Option life | 5 years |
| Weighted average share price at grant date | RM5.60 |
| Expected dividend yield | 5.38% |
| Risk free rate | 3.49% |
| Expected volatility | 15.00% |

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of share prices over the last 5 years (2018: 4 years).

The amounts recognised in the financial statements as disclosed in Notes 8 and 35(e) arose from the Option Plan granted to Directors and Eligible Employees.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 29 SHARE RESERVES (CONTINUED)

(b) Long Term Incentive Plan

A Long Term Incentive Plan ("LTIP") was implemented on 13 May 2016 for the benefit of the Executive Director and Eligible Employees of the Group. The value of the allocation per year to the Executive Director and Eligible Employees under the LTIP shall not exceed 6% of the audited profit after tax of the Group for the preceding financial year.

Under the LTIP, the Executive Director and Eligible Employees are awarded with new ordinary shares in the Company for nil consideration and the shares granted are vested to the Executive Director and Eligible Employees in tranches over a period of up to 3 years. There are no cash settlement alternatives.

As at 31 December 2019, particulars of the shares granted under the LTIP were as follows:

| | At grant date | | Number of ordinary shares | | | | |
|---|---|---|---|---|---|---|---|
| **Date of grant** | **Fair value** | **Market price** | **At 1.1.2019** | **Granted** | **Vested** | **Lapsed** | **At 31.12.2019** |
| 18 May 2017 | RM4.60 | RM4.76 | 160,400 | – | (160,400) | – | – |
| 18 May 2018 | RM3.88 | RM3.88 | 480,600 | – | (240,300) | – | 240,300 |
| 17 May 2019 | RM2.42 | RM2.49 | – | 1,000,000 | (324,000) | – | 676,000 |

The fair value of the shares granted is determined using the Monte Carlo Simulation model, taking into account the terms and conditions under which the shares were granted. The significant inputs in the model are as follows:

| | |
|---|---|
| Closing market price at grant date | RM2.49, RM3.88 and RM4.76 |
| Expected volatility | 24.0% to 27.7% |
| Expected dividend yield | 5.5% to 6.9% |
| Risk free rate | 2.7% |

The expected volatility is based on 1 month, 1 year and 2 years average daily volatility.

## 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 | |
|---|---|---|---|
| | Note | **2019 RM'000** | **2018 RM'000** |
| Deferred tax assets: | | | |
| – Deferred tax assets to be recovered after more than 12 months | | **33,737** | 36,433 |
| – Deferred tax assets to be recovered within 12 months | | **14,402** | 3,363 |
| | | **48,139** | 39,796 |
| Deferred tax liabilities: | | | |
| – Deferred tax liabilities to be recovered after more than 12 months | | **(12,348)** | (52,753) |
| – Deferred tax liabilities to be recovered within 12 months | | **(5,718)** | (6,438) |
| | | **(18,066)** | (59,191) |
| Deferred tax assets/(liabilities) (net) | | **30,073** | (19,395) |
| At 1 January | | **(19,395)** | (14,810) |
| (Charged)/Credited to profit or loss: | | | |
| – property, plant and equipment | | **(2,243)** | 913 |
| – provisions | | **2,160** | (997) |
| – unutilised tax losses | | **2,261** | 904 |
| – intangible assets | | **48,028** | (6,546) |
| | 9 | **50,206** | (5,726) |
| Foreign exchange adjustments | | **(738)** | 1,141 |
| At 31 December | | **30,073** | (19,395) |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 30 DEFERRED TAXATION (CONTINUED)

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Subject to income tax | | |
| Deferred tax assets (before offsetting): | | |
| – property, plant and equipment | **2,239** | 7,104 |
| – provisions | **15,740** | 14,318 |
| – unutilised tax losses | **32,686** | 30,425 |
| | **50,665** | 51,847 |
| Offsetting | **(2,526)** | (12,051) |
| Deferred tax assets (after offsetting) | **48,139** | 39,796 |
| Deferred tax liabilities (before offsetting): | | |
| – property, plant and equipment | **(18,393)** | (21,015) |
| – intangible assets | **(2,199)** | (50,227) |
| | **(20,592)** | (71,242) |
| Offsetting | **2,526** | 12,051 |
| Deferred tax liabilities (after offsetting) | **(18,066)** | (59,191) |

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. The deductible temporary differences are available indefinitely for offset against future taxable profits of the Group and of the Company, subject to agreement with the Inland Revenue Board. These tax benefits will only be obtained if the Group and the Company derive future assessable income of a nature and amount sufficient for the tax benefits to be utilised. Estimating the future taxable profits involve significant assumptions, especially in respect of sales volume growth rate, product margins and new outlets. These assumptions used are consistent with those prepared and used for impairment testing purposes. All available convincing evidences were considered, including approved budgets, business plan and analysis of historical operating results. Based on the available convincing evidences, management believes that the temporary differences, which include unutilised tax losses with time limit of utilisation, will be utilised and has recognised the deferred tax assets as at the end of the reporting date.

## 30 DEFERRED TAXATION (CONTINUED)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Unutilised tax losses | **70,965** | 65,190 | **44,937** | 44,565 |
| Unabsorbed capital allowances | **151** | 119 | **25** | 25 |
| Deductible temporary differences | **137** | – | **803** | – |
| | **71,253** | 65,309 | **45,765** | 44,590 |
| Deferred tax assets not recognised at 24% (2018: 24%) | **17,101** | 15,674 | **10,984** | 10,702 |

Under the Malaysian Finance Act 2018 which was gazetted on 27 December 2018, unutilised tax losses are imposed with a time limit of utilisation. Any accumulated unutilised tax losses brought forward from year assessment 2018 can be carried forward for another 7 consecutive years of assessment. The amount of unutilised tax losses based on time limit is as follows (stated at gross):

| | Expired by year | | |
|---|---|---|---|
| **Unutilised tax losses** | **2025 RM'000** | **2026 RM'000** | **Total RM'000** |
| **Group** | | | |
| Deferred tax assets are recognised | 110,796 | 25,395 | 136,191 |
| No deferred tax assets are recognised | 65,190 | 5,775 | 70,965 |
| **Company** | | | |
| No deferred tax assets are recognised | 44,565 | 372 | 44,937 |

The deductible temporary differences in relation to unabsorbed capital allowances do not have any expiry date.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 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 signed on 26 December 2019 and 7 January 2020.

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

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Present value of unfunded defined benefit obligations | **9,999** | 8,306 |
| Actuarial (losses)/gains recognised in the statements of comprehensive income | **(212)** | 679 |
| Cumulative actuarial (losses)/gains recognised | **(180)** | 32 |

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

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| At 1 January | **8,306** | 8,977 |
| Charged to profit or loss (Note 8) | **1,838** | 1,173 |
| Contributions paid during the financial year | **(567)** | (877) |
| Recognition of actuarial losses/(gains) | **212** | (679) |
| Foreign exchange adjustments | **210** | (288) |
| At 31 December | **9,999** | 8,306 |

## 31 PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The amounts recognised in the profit or loss are as follows:

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Current service cost | **1,092** | 688 |
| Interest cost | **746** | 485 |
| Total, included in employee benefit expenses (Note 8) | **1,838** | 1,173 |

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

| | Group | |
|---|---|---|
| | **2019 %** | **2018 %** |
| Discount rate | **8.3** | 8.5 |
| Expected rate of salary increase | **6.0** | 6.0 |

The weighted average duration of the defined benefit obligation is 18 years.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 31 PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions are as follows:

| | | Impact on defined benefit obligation | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| **2019** | | | |
| Discount rate | **1.0%** | **Decrease by 7.9%** | **Increase by 9.1%** |
| Expected rate of salary increase | **1.0%** | **Increase by 9.2%** | **Decrease by 8.1%** |
| **2018** | | | |
| Discount rate | 1.0% | Decrease by 8.2% | Increase by 9.5% |
| Expected rate of salary increase | 1.0% | Increase by 9.6% | Decrease by 8.5% |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous financial year.

## 32 CONTRACT ASSETS/(LIABILITIES)

Contract assets/(liabilities) comprise of contract with customers as disclosed in Note 2(s).

(a) Contract assets

| | | Group | |
|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 |
| Aggregate costs incurred to-date | | **15,937** | 10,460 |
| Add: Attributable profits | | **344** | 229 |
| | | **16,281** | 10,689 |
| Less: Progress billings | | **(16,281)** | (10,686) |
| Contract assets | 18 | **–** | 3 |
| Contract revenue recognised during the financial year | 4 | **39,992** | 50,534 |
| Contract costs recognised as expense during the financial year | 5 | **37,964** | 45,534 |

(b) Contract liabilities

| | | Group | |
|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 |
| RoyalePharma voucher | (i) | **162** | 242 |
| Contract with customers for supply of medical and non-medical equipment | (ii) | **6,225** | – |
| | | **6,387** | 242 |

(i) RoyalePharma voucher

| | 2019 | 2018 |
|---|---|---|
| At 1 January | **242** | 257 |
| Additions during the financial year | **1,272** | 1,250 |
| Recognition of income during the financial year | **(1,352)** | (1,265) |
| At 31 December | **162** | 242 |
| Analysed as: | | |
| – Current | **162** | 242 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 32 CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(b) Contract liabilities (continued)

(ii) The Group entered into a contract during the financial year to supply of medical and non-medical equipment. Contract is billed progressively in accordance with the signed agreement. The schedule of billings does not correspond with the revenue recognition which is determined by reference to the progress towards completing the performance obligations. As at 31 December 2019, no revenue was recognised in relation to this contract. Management expecting to recognise the revenue in the next financial year.

(c) Unsatisfied performance obligation

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Aggregate amount of transaction price allocated to contracts that are partially unsatisfied as at 31 December | **144,162** | 35,175 |

Management expects that the unsatisfied contracts as of 31 December 2019 will be recognised as revenue over a period of 3 years, which is depending on the progress towards completing the performance obligations.

## 33 SEGMENTAL REPORTING

The Board of Directors is the Group's chief operating decision maker. During the financial year, the Board of Directors has decided to further illustrate its identified reportable segments by presenting earnings before interest, taxation, depreciation and amortisation, as management believes that such information is most relevant in evaluating the results of the segments. Accordingly, similarly was reflected in previous financial year.

For management purposes, the Group's business is organised into the following three reportable segments according to the internal reporting structure:

(a) Logistics and distribution – Distribution, trading and wholesaling of pharmaceutical and medical products as well as supply and installation of medical and hospital equipment in Malaysia.

(b) Manufacturing – Manufacturing of pharmaceutical products in Malaysia.

(c) Indonesia – Manufacturing and distribution of pharmaceutical and medical products in Indonesia have been aggregated into one reportable segment as it is reflective of the Group's business synergy in Indonesia, it is closely monitored as a potential growth region and is expected to materially contribute to the Group's revenue in the future.

Inter-segment revenues are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments

| Group | Logistics and distribution RM'000 | Manufacturing RM'000 | Indonesia RM'000 | Unallocated corporate expenses RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Revenue | | | | | | |
| External sales | **2,012,413** | **7,000** | **801,117** | **–** | **–** | **2,820,530** |
| Inter-segment sales | **–** | **282,698** | **–** | **–** | **(282,698)** | **–** |
| Total revenue | **2,012,413** | **289,698** | **801,117** | **–** | **(282,698)** | **2,820,530** |
| Results | | | | | | |
| Earnings before interest, taxation, depreciation and amortisation | **55,027** | **60,779** | **22,890** | **(8,102)** | **–** | **130,594** |
| Depreciation and amortisation | **(256,800)** | **(19,651)** | **(7,142)** | **–** | **–** | **(283,593)** |
| Finance costs | **(19,673)** | **(3,775)** | **(17,544)** | **–** | **734** | **(40,258)** |
| Interest income | **1,544** | **555** | **27** | **–** | **(734)** | **1,392** |
| (Loss)/Profit before zakat and taxation | **(219,902)** | **37,908** | **(1,769)** | **(8,102)** | **–** | **(191,865)** |
| Zakat | **(1,890)** | **(350)** | **–** | **–** | **–** | **(2,240)** |
| Taxation | **48,419** | **(2,202)** | **(1,559)** | **–** | **–** | **44,658** |
| Net (loss)/profit for the financial year | **(173,373)** | **35,356** | **(3,328)** | **(8,102)** | **–** | **(149,447)** |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| Group | Logistics and distribution RM'000 | Manufacturing RM'000 | Indonesia RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Other information | | | | | |
| Segment assets | **1,651,039** | **647,403** | **401,478** | **(1,107,618)** | **1,592,302** |
| Segment liabilities | **1,234,125** | **312,851** | **322,858** | **(634,458)** | **1,235,376** |
| Capital expenditure on property, plant and equipment and intangible assets | **43,637** | **28,304** | **5,093** | **–** | **77,034** |
| Impairment of slow moving and obsolete inventories | **13,429** | **5,639** | **63** | **–** | **19,131** |
| Share-based expenses | **2,461** | **536** | **–** | **–** | **2,997** |
| Non-cash (income)/expenses | **(6,520)** | **1,643** | **2,363** | **–** | **(2,514)** |

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| Group | Logistics and distribution RM'000 | Manufacturing RM'000 | Indonesia RM'000 | Unallocated corporate expenses RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Revenue | | | | | | |
| External sales | 1,686,018 | 4,265 | 694,673 | – | – | 2,384,956 |
| Inter-segment sales | – | 324,910 | – | – | (324,910) | – |
| Total revenue | 1,686,018 | 329,175 | 694,673 | – | (324,910) | 2,384,956 |
| Results | | | | | | |
| Earnings before interest, taxation, depreciation and amortisation | 52,496 | 83,328 | 20,515 | (2,885) | – | 153,454 |
| Depreciation and amortisation | (24,519) | (18,797) | (4,745) | – | – | (48,061) |
| Finance costs | (18,081) | (4,291) | (15,615) | – | 1,915 | (36,072) |
| Interest income | 2,079 | 445 | 290 | – | (1,915) | 899 |
| Profit before zakat and taxation | 11,975 | 60,685 | 445 | (2,885) | – | 70,220 |
| Zakat | (721) | (350) | – | – | – | (1,071) |
| Taxation | (6,415) | (17,428) | (2,076) | – | – | (25,919) |
| Net profit/(loss) for the financial year | 4,839 | 42,907 | (1,631) | (2,885) | – | 43,230 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 33 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

| Group | Logistics and distribution RM'000 | Manufacturing RM'000 | Indonesia RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Other information | | | | | |
| Segment assets | 1,835,799 | 627,944 | 403,017 | (959,041) | 1,907,719 |
| Segment liabilities | 1,180,377 | 284,540 | 322,106 | (407,967) | 1,379,056 |
| Capital expenditure on property, plant and equipment and intangible assets | 53,822 | 24,952 | 2,298 | – | 81,072 |
| Impairment of slow moving and obsolete inventories | 7,499 | 6,584 | 87 | – | 14,170 |
| Share-based expenses | 3,686 | 715 | – | – | 4,401 |
| Non-cash (income)/expenses | (2,683) | 3,469 | 2,492 | – | 3,278 |

## 33 SEGMENTAL REPORTING (CONTINUED)

(b) Geographical information

| | Revenue from external customers RM'000 | Total non-current assets excluding deferred tax assets RM'000 |
|---|---|---|
| Geographical markets | | |
| **2019** | | |
| Malaysia | **2,008,859** | **573,204** |
| Indonesia | **801,117** | **37,248** |
| Other countries | **10,554** | **–** |
| | **2,820,530** | **610,452** |
| **2018** | | |
| Malaysia | 1,673,640 | 773,662 |
| Indonesia | 694,673 | 35,735 |
| Other countries | 16,643 | – |
| | 2,384,956 | 809,397 |

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 RM1.9 billion (2018: RM1.6 billion) are mainly derived from a single external customer. These revenues are attributable to Logistics and Distribution segment. The single external customer with revenue equal or more than 10% of the Group's total revenue is disclosed in Note 35(f).

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 34 CAPITAL COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Authorised and contracted for: | | |
| – acquisition of property, plant and equipment | **3,894** | 10,490 |
| Authorised but not contracted for: | | |
| – acquisition of property, plant and equipment | **117,381** | 173,585 |

## 35 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 have 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 | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| (a) Immediate holding company | | | | |
| Expenses | | | | |
| • Management fees | **(398)** | (315) | **(394)** | (138) |
| • Corporate and administrative support services | **(503)** | (665) | **–** | – |

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

| | Group | |
|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 |
| (b) Subsidiaries of the immediate holding company | | |
| Expenses | | |
| • Travelling and accommodation | **(1,505)** | (1,896) |
| • Provision of insurance | **(2,538)** | (2,902) |
| • Freight forwarding and transportation services | **(5,999)** | (9,439) |
| • Rental of premises | **(867)** | (813) |

| | Company | |
|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 |
| (c) Subsidiaries | | |
| Income | | |
| • Interest income on advances to a subsidiary | **16** | 292 |
| • Dividend income from subsidiaries | **35,000** | 113,500 |
| • Management fees charged to subsidiaries | **15,500** | 16,029 |
| (d) Payment of expenses made on behalf: | | |
| • by subsidiaries | **2,532** | 10,042 |
| • for subsidiaries | **(2,701)** | (4,075) |

| | Group | | Company | |
|---|---|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 | 2019<br>RM'000 | 2018<br>RM'000 |
| (e) Remuneration of key management personnel | | | | |
| Salaries, bonuses and allowances | **6,722** | 6,987 | **6,690** | 6,958 |
| Social contribution costs | **8** | 8 | **8** | 8 |
| Defined contribution plan | **978** | 1,091 | **978** | 1,091 |
| Estimated monetary value of benefits by way of usage of Group assets | **392** | 361 | **392** | 361 |
| Share-based expenses | **1,858** | 3,432 | **1,858** | 3,432 |
| Fee | **925** | 1,015 | **649** | 675 |
| | **10,883** | 12,894 | **10,575** | 12,525 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Remuneration of key management personnel (Continued)

Key management personnel comprise the Board of Directors and Senior Management personnel of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group entities directly or indirectly.

(f) Government-related entities

The Government of Malaysia and bodies controlled or jointly controlled by the Government of Malaysia are related parties of the Group by virtue of Lembaga Tabung Angkatan Tentera ("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.

In the month of November 2019, the Group received a letter from MOH extending its services for the provision of medicine and medical supplies to MOH facilities for an interim period of twenty-five (25) months, commencing from 1 December 2019 to 31 December 2021. In addition, the Group also secured a contract to continue providing logistics and distribution services for MOH for a period of five (5) years ending 31 December 2024.

| | **Group** | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| Sale of goods to government-related entities | **1,916,270** | 1,579,231 |
| Contracts with government | **37,680** | 45,845 |
| Amounts due from government-related entities | **1,728** | 8,477 |

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Significant outstanding balances

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Amounts due from | | | | |
| – Immediate holding company | **14** | 9 | **–** | – |
| – Subsidiaries | **–** | – | **92,636** | 87,274 |
| Amounts due to | | | | |
| – Immediate holding company | **190** | 390 | **29** | 148 |
| – Subsidiaries | **–** | – | **186,087** | 22,197 |
| – Related companies* | **2,230** | 2,429 | **–** | 5 |

* The related companies are subsidiaries of the immediate holding company and are included in Notes 20, 22 and 25.

## 36 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.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 EURO, US Dollar, RMB and IDR. Foreign currency exchange risk arises from current commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group enters into contracts in Ringgit Malaysia denomination, where possible. Foreign currency exchange risk arises when current commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2019, if the functional currency had weakened/strengthened by 5% (2018: 5%) against EURO with all other variables held constant, post tax loss for the financial year would have been higher/lower by RM117,000 (2018: post tax profit lower/higher by RM27,000) mainly as result of foreign exchange losses/gains on translation of EURO denominated trade and other payables.

As at 31 December 2019, if the functional currency had weakened/strengthened by 5% (2018: 5%) against US Dollar with all other variables held constant, post tax loss for the financial year would have been higher/lower by RM300,000 (2018: post tax profit lower/higher by RM228,000) mainly as a result of foreign exchange gains/losses on translation of US Dollar – denominated trade payables, other payables, trade receivables, other receivables and deposits, cash and bank balances.

As at 31 December 2019, if the functional currency had weakened/strengthened by 5% (2018: 5%) against RMB with all other variables held constant, post tax loss for the financial year would have been lower/higher by RM185,000 (2018: post tax profit lower/higher by RM184,000) mainly as a result of foreign exchange losses/gains on translation of RMB – denominated deposits, cash and bank balances.

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2019, if the functional currency had weakened/strengthened by 5% (2018: 5%) against the IDR with all other variables held constant, the impact on equity would have been approximately higher/lower by RM2,986,000 (2018: RM3,054,000) on translation upon consolidation. No impact to profit or loss 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:

| | | **2019** | |
|---|---|---|---|
| | **RMB RM'000** | **US Dollar RM'000** | **Euro RM'000** |
| Trade receivables | **–** | **1,880** | **–** |
| Deposits, cash and bank balances | **4,879** | **5** | **–** |
| Trade payables | **–** | **(9,064)** | **(3,059)** |
| Other payables | **–** | **(705)** | **(23)** |
| | **4,879** | **(7,884)** | **(3,082)** |

| | | **2018** | |
|---|---|---|---|
| | **RMB RM'000** | **US Dollar RM'000** | **Euro RM'000** |
| Trade receivables | – | 3,638 | – |
| Other receivables | – | 3 | – |
| Deposits, cash and bank balances | 4,835 | 5 | – |
| Trade payables | – | (9,257) | (748) |
| Other payables | – | (380) | 30 |
| | 4,835 | (5,991) | (718) |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(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 2019, if interest rates on Ringgit Malaysia – denominated borrowings of the Group and of the Company had been 50 (2018: 50) basis points lower/higher with all other variables held constant, post tax loss for the financial year of the Group and of the Company would have been lower/higher by RM1,857,000 (2018: post tax profit higher/lower by RM1,578,000) and RM395,000 (2018: RM491,000) respectively, mainly as a result of lower/higher interest expense.

As at 31 December 2019, if interest rates on Indonesian Rupiah – denominated borrowings of the Group had been 50 (2018: 50) basis points lower/higher with all other variables held constant, post tax loss for the financial year of the Group would have been lower/higher by RM565,000 (2018: post tax profit higher/lower by RM484,000) respectively, mainly as a result of lower/higher interest expense.

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk

(i) Risk management

Credit risk is managed on Group basis. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from credit exposures to customers, including outstanding receivables, as well as deposits, cash and bank balances.

For trade and other receivables, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. There are no significant concentrations of credit risk whether through exposure to individual customers and/or regions other than disclosed below.

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

(ii) Impairment of financial assets

Trade receivables and contract assets

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

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

On that basis, the Group recognises the loss allowance as at 31 December 2019 of RM1,632,000 (2018: RM824,000) when the amount due exceed 3 months and above.

The Group is exposed to concentration of credit risk in respect to government-linked companies ("GLCs") of which the Group consider the risk of default is low. Furthermore, the Group is of the view that the expected credit loss rate on the amounts outstanding from GLCs are considered low as GLCs have low risk of default, strong capacity to meet their contracted cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of GLCs to fulfil their contractual cash flow obligations.

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

The aging analysis of the Group's gross and net receivable are as follows:

| | Collective assessment | | | | | |
|---|---|---|---|---|---|---|
| | Current and less than three months RM'000 | Between three to six months RM'000 | Between six months and one year RM'000 | Greater than one year RM'000 | Individual assessment RM'000 | Total RM'000 |
| At 31 December 2019 | | | | | | |
| Gross carrying amount | **157,418** | **28,356** | **14,268** | **9,992** | **7,901** | **217,935** |
| Expected loss rate | **0.0%** | **0.4%** | **23.5%** | **24.8%** | **100.0%** | **6.3%** |
| Loss allowance | **–** | **(102)** | **(3,351)** | **(2,481)** | **(7,901)** | **(13,835)** |
| Carrying amount (net of loss allowance) | **157,418** | **28,254** | **10,917** | **7,511** | **–** | **204,100** |
| At 31 December 2018 | | | | | | |
| Gross carrying amount | 182,317 | 24,965 | 14,206 | 6,425 | 16,283 | 244,196 |
| Expected loss rate | 0.0% | 0.9% | 23.3% | 25.1% | 100.0% | 8.8% |
| Loss allowance | – | (220) | (3,304) | (1,613) | (16,283) | (21,420) |
| Carrying amount (net of loss allowance) | 182,317 | 24,745 | 10,902 | 4,812 | – | 222,776 |

The reconciliation of loss allowance for trade receivables and contract assets is disclosed as in Note 18.

Other receivables and amounts due from subsidiaries

The balances are deemed recoverable, considered to be performing, and have a low risk of default and a capacity to meet contractual cash flows. This is supported after considering the historical data and the possibility of no credit loss occurring.

The reconciliation of loss allowance for other receivables and amounts due from subsidiaries are disclosed in Note 19 and Note 20 respectively.

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's and of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Group's and the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

Whilst the Group's and the Company's current liabilities exceeded their current assets by RM266,870,000 (2018: RM248,301,000) and RM168,847,000 (2018: RM163,986,000) respectively, the Directors are of the view that the Group and the Company will have sufficient cash flows for the next 12 months from the reporting date to meet their cash flows requirements based on the undrawn committed borrowing facilities available to the Group and the Company as disclosed in Note 27. In addition, should the need arise, the profitable subsidiaries can distribute dividends to the Company to enable the Company to meet its immediate commitments as and when they fall due.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and will not reconcile to the amounts disclosed on the statements of financial position.

| | **Less than 3 months RM'000** | **Between 3 months and 1 year RM'000** | **Between 1 and 2 years RM'000** | **More than 2 years RM'000** |
|---|---|---|---|---|
| **Group** | | | | |
| **Financial liabilities at amortised cost** | | | | |
| At 31 December 2019 | | | | |
| Borrowings | **538,316** | **36,328** | **234** | **80** |
| Lease liabilities | **600** | **857** | **1,573** | **552** |
| Trade payables | **548,994** | **–** | **–** | **–** |
| Other payables | **75,286** | **–** | **–** | **–** |
| Amount due to immediate holding company | **190** | **–** | **–** | **–** |
| Amounts due to related companies | **2,230** | **–** | **–** | **–** |
| At 31 December 2018 | | | | |
| Borrowings | 612,652 | 38,545 | 109 | – |
| Trade payables | 572,257 | – | – | – |
| Other payables | 71,033 | – | – | – |
| Amount due to immediate holding company | 390 | – | – | – |
| Amounts due to related companies | 2,429 | – | – | – |
| Dividend payable | 13,025 | – | – | – |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

| | Less than 3 months RM'000 | Between 3 months and 1 year RM'000 | Between 1 and 2 years RM'000 | More than 2 years RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Financial liabilities at amortised cost** | | | | |
| At 31 December 2019 | | | | |
| Borrowings | **50,200** | **–** | **–** | **–** |
| Other payables | **2,741** | **–** | **–** | **–** |
| Amount due to immediate holding company | **29** | **–** | **–** | **–** |
| Amounts due to subsidiaries | **186,087** | **–** | **–** | **–** |
| At 31 December 2018 | | | | |
| Borrowings | 200,278 | – | – | – |
| Other payables | 3,434 | – | – | – |
| Amount due to immediate holding company | 148 | – | – | – |
| Amounts due to subsidiaries | 22,197 | – | – | – |
| Amounts due to related companies | 5 | – | – | – |
| Dividend payable | 13,025 | – | – | – |

(d) Financial instruments by category

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Financial assets at amortised cost** | | | | |
| Trade receivables and contract assets | **204,100** | 222,779 | **–** | – |
| Other receivables (net of GST/VAT recoverable and prepayments) | **8,342** | 30,147 | **–** | 10,331 |
| Deposits, cash and bank balances | **29,587** | 35,655 | **487** | 336 |
| Amounts due from subsidiaries | **–** | – | **92,636** | 87,274 |
| Amount due from immediate holding company | **14** | 9 | **–** | – |

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(d) Financial instruments by category (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| **Financial liabilities at amortised cost** | | | | |
| Borrowings | **565,297** | 642,847 | **50,000** | 200,000 |
| Lease liabilities | **3,582** | – | **–** | – |
| Trade payables | **548,994** | 572,257 | **–** | – |
| Other payables | **75,286** | 71,033 | **2,741** | 3,434 |
| Amount due to immediate holding company | **190** | 390 | **29** | 148 |
| Amounts due to related companies | **2,230** | 2,429 | **–** | 5 |
| Amounts due to subsidiaries | **–** | – | **186,087** | 22,197 |
| Dividend payable | **–** | 13,025 | **–** | 13,025 |

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital.

The gearing ratios are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Total borrowings (Note 27) | **565,297** | 642,847 | **50,000** | 200,000 |
| Total equity attributable to equity holders of the Company | **337,851** | 509,336 | **448,427** | 451,705 |
| Gearing ratio (times) | **1.7** | 1.3 | **0.1** | 0.4 |

# NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

**Capital risk management (continued)**

Under the terms of its borrowing facilities undertaken by the Group and the Company during the financial year, the Group and the Company are required to comply with the following financial covenants:

- The ratio of debt to earnings before interest, taxation, depreciation and amortisation ("EBITDA") is to be no more than 3 to 1;
- The ratio of EBITDA to interest expense is to be no less than 5 to 1;
- Current ratio of a minimum of 1.1;
- The interest-bearing debt over equity ratio of not more than 3; and
- The ratio of Debt Service Coverage is to be a minimum of 1.25.

Included within bankers' acceptances (unsecured) of the Group as disclosed in Note 27 to the financial statements is RM14.7 million in respect of borrowings drawdown by PT Errita Pharma. The borrowings subject the subsidiary to financial covenants such as current ratio, interest-bearing debt over equity ratio and Debt Service Coverage ratio which require the subsidiary to have positive EBITDA. However, as at 31 December 2019, 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 2019.

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.

## 37 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Pharmaniaga Logistics Sdn. Bhd. ("PLSB"), a wholly-owned subsidiary, has received a letter from the Ministry of Health ("MOH") in the month of November 2019, extending its services for the provision of medicines and medical supplies to MOH facilities for an interim period of twenty-five (25) months, commencing 1 December 2019 to 31 December 2021. In addition, PLSB has secured a contract to continue providing logistics and distribution services for MOH for a period of five (5) years ending 31 December 2024.

## 38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 2 March 2020.

# OTHER COMPLIANCE INFORMATION

## RECURRENT RELATED PARTY TRANSACTIONS

At the 21st Annual General Meeting held on 23 April 2019, the Company obtained Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature. The information disclosed in accordance with Section 3.1.5 of Practice Note 12 of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad Listing Requirements are as follows:

| Related party | Nature of Transaction | Actual transaction RM'000 |
|---|---|---|
| Boustead Holdings Berhad | Provision of corporate and administrative support services, internal audit function and training | 901 |
| Boustead Travel Services Sdn Bhd | Provision of travelling services | 1,043 |

Datuk Koo Hock Fee is deemed interested Directors/connected person.

## AUDIT AND NON-AUDIT FEES

The audit and non-audit fees below are also disclosed in the Audited Financial Statements set out under Note 7 to the Financial Statements on page 174 of this Annual Report.

| Audit Fees | Company RM'000 | Group RM'000 |
|---|---|---|
| Audit fees paid to the External Auditors for the financial year ended 31 December 2019 | 211 | 728 |

| Non-Audit Fees | Company RM'000 | Group RM'000 |
|---|---|---|
| Non-audit fees paid to the External Auditors for the financial year ended 31 December 2019 | – | – |

## MATERIAL CONTRACT

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

## UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

There were no corporate proposals during the financial year ended 31 December 2019.

## CONTRACTS RELATING TO LOANS

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

## OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

Pharmaniaga did not issue any Options, Warrants and Convertible Securities during the financial year ended 31 December 2019 except for the following:

## SHARE SCHEME

The Share Scheme was approved by Company's shareholders at the Extraordinary General Meeting held on 29 March 2016 and subsequently implemented on 13 May 2016. The Share Scheme comprises the Option Plan and Long Term Incentive Plan ("LTIP").

**Option Plan**

| Option Price of RM5.04 | Grand Total of Option | Option to Directors |
|---|---|---|
| Granted | 15,840,00 | 13,800,000 |
| Exercised | (200,000) | (200,000) |
| Lapsed | (7,600,000) | (7,600,000) |
| Outstanding | 8,040,000 | 6,000,000 |

**LTIP**

| Ordinary Share | Grand Total of Shares | Shares to Executive Director |
|---|---|---|
| Granted | 3,096,000 | 448,500 |
| Vested | (2,147,000) | 321,700 |
| Lapsed | (32,700) | – |

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

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

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

# ANALYSIS OF SHAREHOLDINGS
AS AT 29 MAY 2020

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Holders | % | No. of Shares | % |
|---|---|---|---|---|
| LESS THAN 100 | 706 | 8.18 | 14,880 | 0.01 |
| 100 TO 1,000 | 3,177 | 36.82 | 1,668,189 | 0.64 |
| 1,001 TO 10,000 | 3,799 | 44.03 | 14,816,612 | 5.67 |
| 10,001 TO 100,000 | 843 | 9.77 | 22,797,011 | 8.73 |
| 100,001 TO LESS THAN 5% OF ISSUED SHARES | 102 | 1.18 | 46,767,041 | 17.90 |
| 5% AND ABOVE OF ISSUED SHARES | 2 | 0.02 | 175,165,999 | 67.05 |
| **Total** | **8,103** | **100.00** | **261,229,732** | **100.00** |

## TOP 30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | *BOUSTEAD HOLDINGS BERHAD*<br>*ACCOUNT NON-TRADING* | 146,110,415 | 55.93 |
| 2 | LEMBAGA TABUNG ANGKATAN TENTERA | 29,055,584 | 11.12 |
| 3 | KUMPULAN WANG PERSARAAN (DIPERBADANKAN) | 5,174,200 | 1.98 |
| 4 | CIMSEC NOMINEES (TEMPATAN) SDN BHD<br>*CIMB BANK FOR CHE LODIN BIN WOK KAMARUDDIN (PBCL-0G0052)* | 3,742,183 | 1.43 |
| 5 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>*URUSHARTA JAMAAH SDN BHD (AFFIN 1)* | 2,206,990 | 0.84 |
| 6 | DASAR TECHNOLOGIES SDN BHD | 1,950,000 | 0.75 |
| 7 | MAYBANK NOMINEES (TEMPATAN) SDN BHD<br>*PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG* | 1,829,900 | 0.70 |
| 8 | CIMSEC NOMINEES (TEMPATAN) SDN BHD<br>*CIMB BANK FOR CHE LODIN BIN WOK KAMARUDDIN (PB-0J0045)* | 1,125,600 | 0.43 |
| 9 | INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD<br>*PLEDGED SECURITIES ACCOUNT FOR TAN HENG LOON* | 1,019,000 | 0.39 |
| 10 | LIU SUON LAONG @ LAU SUON LAONG | 1,000,000 | 0.38 |
| 11 | PUBLIC NOMINEES (TEMPATAN) SDN BHD<br>*PLEDGED SECURITIES ACCOUNT FOR AU KWAN SENG (E-KLC)* | 994,600 | 0.38 |
| 12 | CIMSEC NOMINEES (TEMPATAN) SDN BHD<br>*CIMB BANK FOR CHE LODIN BIN WOK KAMARUDDIN (PB)* | 975,000 | 0.37 |

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

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 13 | CHINCHOO INVESTMENT SDN BERHAD | 913,149 | 0.35 |
| 14 | PERMODALAN NASIONAL BERHAD | 900,000 | 0.34 |
| 15 | YONG SIEW YOON | 811,364 | 0.31 |
| 16 | HSBC NOMINEES (ASING) SDN BHD<br>*J.P MORGAN SECURITIES PLC* | 793,489 | 0.30 |
| 17 | KENANGA NOMINEES (TEMPATAN) SDN BHD<br>*RAKUTAN TRADE SDN BHD FOR LIM CHIN SOON* | 777,700 | 0.30 |
| 18 | UOB KAY HIAN NOMINEES (ASING) SDN BHD<br>*EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)* | 774,356 | 0.30 |
| 19 | UOBM NOMINEES (TEMPATAN) SDN BHD<br>*UOB ASSET MANAGEMENT (MALAYSIA) BERHAD FOR GIBRALTAR BSN AGGRESSIVE FUND* | 740,700 | 0.28 |
| 20 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>*URUSHARTA JAMAAH SDN. BHD. (FRANKLIN 1)* | 739,895 | 0.28 |
| 21 | CARTABAN NOMINEES (ASING) SDN BHD<br>*EXEMPT AN FOR BARCLAYS CAPITAL SECURITIES LTD (SBL/PB)* | 712,400 | 0.27 |
| 22 | GAN TENG SIEW REALTY SDN. BERHAD | 657,564 | 0.25 |
| 23 | TAN EWE SEONG | 633,000 | 0.24 |
| 24 | MIDVEST PROPERTIES SDN BHD | 629,600 | 0.24 |
| 25 | AFFIN HWANG NOMINEES (TEMPATAN) SDN BHD<br>*YAYASAN WARISAN PERAJURIT* | 596,200 | 0.23 |
| 26 | CLSA SECURITIES MALAYSIA SDN BHD<br>*CLR FOR PERMODALAN NASIONAL BERHAD* | 537,100 | 0.21 |
| 27 | KEY DEVELOPMENT SDN BERHAD | 531,759 | 0.20 |
| 28 | KINTAN CAPITAL SDN BHD | 500,000 | 0.19 |
| 29 | GAN YEN CHENG | 492,000 | 0.19 |
| 30 | CHE LODIN BIN WOK KAMARUDDIN | 443,965 | 0.17 |
| | **TOTAL** | **207,367,713** | **79.38** |

# ANALYSIS OF SHAREHOLDINGS
AS AT 29 MAY 2020

## SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

| | | No. of Shares Held in Pharmaniaga Berhad | | | |
|---|---|---|---|---|---|
| **No** | **Name of Substantial Shareholders** | **Direct** | **%** | **Indirect** | **%** |
| 1 | BOUSTEAD HOLDINGS BERHAD *ACCOUNT NON-TRADING* | 146,110,415 | 55.93 | – | – |
| 2 | LEMBAGA TABUNG ANGKATAN TENTERA | 29,055,584 | 11.12 | 146,110,415 | 55.93 |

## DIRECTORS' SHAREHOLDINGS (as per the Register)

| | | No. of Shares Held in Pharmaniaga Berhad | | | |
|---|---|---|---|---|---|
| **No** | **Name of Substantial Shareholders** | **Direct** | **%** | **Indirect** | **%** |
| 1 | DATUK (DR.) HAFSAH BINTI HASHIM | 0 | 0 | – | – |
| 2 | LIEUTENANT GENERAL DATO' SERI PANGLIMA DR. SULAIMAN BIN ABDULLAH (RETIRED) | 0 | 0 | – | – |
| 3 | BRIGADIER GENERAL DATO' MOHD SHAHROM BIN MOHAMAD (RTD.) | 0 | 0 | – | – |
| 4 | DATO' MOHD ZAHIR BIN ZAHUR HUSSAIN | 0 | 0 | – | – |
| 5 | DATUK KOO HOCK FEE | 108,024 | 0.041 | – | – |
| 6 | DR. SALMAH BINTI BAHRI | 0 | 0 | – | – |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (RM'000) | Date of Revaluation / Acquisition |
|---|---|---|---|---|---|---|---|
| 1 | Lot PT 46016,<br>HS (D) 87359<br>Mukim of Kapar,<br>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 | 25 | 23,665 | 14 March 2005 |
| 2 | Lot PT 46016,<br>HS (D) 87359<br>Mukim of Kapar,<br>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 | 22 | 13,667 | 14 March 2005 |
| 3 | HS (D) 145264, PT 70920,<br>Mukim of Kapar,<br>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 | 5 | 3,214 | 3 October 2014 |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (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 | 5 | 1,862 | 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 | 4 | 21,067 | 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 | 19 | 52,835 | 21 August 2001 |

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (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 | 34 | 12,644 | 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 of, office, a warehouse and a guard house | 6,560 | Leasehold of 60 years, expiring on 15 August 2056 | 23 | 5,809 | 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 | 17 | 2,929 | 21 January 2002 |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (RM'000) | Date of Revaluation / Acquisition |
|---|---|---|---|---|---|---|---|
| 10 | HS (M) 1479, HS (M) 1480, and HS (M) 1481, Lot No. 3806, 3807 and 3808, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang<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 11/2 semi-detached warehouses with office | 2,175 | Freehold | 22 | 921 | 11 November 1998 |
| 11 | Flat No. 401-405, 3rd Floor, Block 5, Jalan 1/9, Section 1, 43650 Bandar Baru Bangi, Selangor Darul Ehsan | 5 units of 2-bedroom flat for staff lodging | 296 | Leasehold of 99 years expiring on 31 March 2095 | 26 | *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 | 26 | *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 | 33 | *0 | 4 September 1987 |

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (RM'000) | Date of Revaluation / Acquisition |
|---|---|---|---|---|---|---|---|
| 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 | 33 | *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, flammable store, chiller, boiler house, purified water system and waste water treatment | 40,469 | Leasehold of 99 years, expiring on 1 January 2083 | 42 | 14,916 | 6 March 2005 |
| 16 | Lot 276, 277 & 278, District of Mukim of Bandar Seri Iskandar, Perak Tengah, Perak Darul Ridzuan<br><br>**Factory:**<br>Lot 120, Taman Farmaseutikal, 32610 Bandar Seri Iskandar, Perak Darul Ridzuan | A parcel of building land built upon a defected industrial building with a 2-storey office building, prayer room, canteen, warehouse, penicillin and non penicillin production plant buildings, laboratory building, chiller, boiler house, TNB sub-station, waste water treatment and a guard house | 60,737 | Leasehold of 99 years, expiring on 13 March 2100 | 23 | 26,415 | 1 June 2009 |
| 17 | Blok D, 20 & 21, Ruko Grand Mal, Bekasi, Jakarta, Indonesia | Shop lots | 453 | Freehold 23 years to 2 June 2036 | 17 | 56 | 13 October 2003 |

# GROUP PROPERTY LIST

| No. | Location and address of property | Brief description and existing use | Area Building / Land (sq meters) | Tenure and Year of Expiry | Age of Building / Land (Years) | Net Book Value as at 31/12/2019 (RM'000) | Date of Revaluation / Acquisition |
|---|---|---|---|---|---|---|---|
| 18 | Blok D 19, Ruko Grand Mal, Bekasi, Jakarta, Indonesia | Shop lots | 204 | Freehold | 2 | 467 | 14 November 2017 |
| 19 | Jalan Depsos, 67 - 70 Bintaro, Jaksel, Jakarta, Indonesia | Office and warehouse | 1,860 | Freehold 30 years to 7 July 2028 | 20 | 895 | 14 January 1999 Revaluation 2001 |
| 20 | Jalan Kalibokor Selatan, 152 Surabaya, Indonesia | Office and warehouse | 1,133 | Leasehold 5 years to 24 July 2021 | 38 | 115 | 4 November 1971 Revaluation 2001 |
| 21 | Jalan Hayam Wuruk I No. 45, Bandar Lampung, Indonesia | Office and warehouse | 1,072 | Freehold 20 years to 17 November 2036 | 3 | 916 | 10 November 2016 |
| 22 | Jalan Peundeuy, RT/RW 04/07, Desa Bojongsalam Kecamatan Rancaekek, Kabupaten Bandung, Indonesia | An industrial land with office, warehouse, guard house and electricity sub-station | 16,492 | Leasehold of 30 years to 1 October 2043 | 35 | 8,879 | 8 May 1994 |

* Below RM500

# 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>**Pristine Pharma Sdn Bhd** *(f.k.a. Pharmaniaga Pristine Sdn Bhd)*<br>**Pharmaniaga Biomedical Sdn Bhd**<br>**Pharmaniaga International Corporation Sdn Bhd** | No. 7, Lorong Keluli 1B,<br>Kawasan Perindustrian 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 Branch) | Lot No. 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 Branch) | Lot 120, Taman Farmaseutikal,<br>32610 Bandar Seri Iskandar,<br>Perak Darul Ridzuan<br>Tel : +605-371 2020<br>Fax : +605-371 1940/1950 |
| **Pharmaniaga LifeScience Sdn Bhd** | Lot 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 |
| **Bio-Collagen Technologies Sdn Bhd** | No. 11, Jalan Perindustrian Balakong Jaya 2/3,<br>Taman Perindustrian Balakong Jaya 2,<br>43300 Seri Kembangan,<br>Selangor Darul Ehsan<br>Tel : +603-8959 9710<br>Fax : +603-8945 9910 |
| **Pharmaniaga Logistics Sdn Bhd**<br>(Seksyen 15 Branch) | Lot 49, No. 11, Jalan Ragum 15/17,<br>Seksyen 15, 40200 Shah Alam,<br>Selangor Darul Ehsan<br>Tel : +603-5512 0161<br>Fax : +603-5512 0281 |

# GROUP CORPORATE DIRECTORY

| List of Companies | Address |
|---|---|
| **Pharmaniaga Logistics Sdn Bhd**<br>(Juru Branch) | 1, 3 & 5, Lorong IKS Juru 8,<br>Taman Perindustrian Ringan Juru,<br>14100 Simpang Ampat,<br>Seberang Prai, Pulau Pinang<br>Tel : +604-508 3330/1/2<br>Fax : +604-508 3111 |
| **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 : +6082-432 800<br>Fax : +6082-432 806 |
| **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 : +6088-439 188<br>Fax : +6088-437 288 |
| **Paradigm Industry Sdn Bhd** | No. 36-G Jalan Klang Sentral 2/KU5,<br>Klang Sentral,<br>41050 Klang, Selangor<br>Tel : +603-3358 6760<br>Fax : +603-3362 6761 |
| **PT Millennium Pharmacon International Tbk**<br>(HQ) | Crown Bungur Arteri 2-4th Floors,<br>Jl. Sultan Iskandar Muda,<br>No. 18, Jakarta,<br>12220, Indonesia<br>Tel : +62-21 2708 5961<br>Fax : +62-21 2708 5958 |
| **PT Errita Pharma**<br>(Bandung) | Jalan Peundeuy,<br>RT/RW 04/07,<br>Desa Bojongsalam,<br>Kecamatan Rancaekek,<br>Kabupaten Bandung,<br>Indonesia<br>Tel : +62-22 794 9062/4<br>Fax : +62-22 794 9063 |
| **PT Mega Pharmaniaga (Dormant)**<br>(Jakarta) | Komplek Perkantoran Graha Elok Mas,<br>Blok HH, No. 83,<br>Jl. Panjang, Kebon Jeruk,<br>Jakarta, 11510 Indonesia<br>Tel : +62-21 295 08987<br>Fax : +62-21 295 08988 |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Twenty-Second Annual General Meeting (AGM) of Pharmaniaga Berhad will be conducted entirely through live streaming from the broadcast venue at **Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Monday, 20 July 2020 at 9.00 a.m.** for the purpose of transacting the following business:

**AS ORDINARY BUSINESS**

To receive the Audited Financial Statements for the financial year ended 31 December 2019 together with the Reports of the Directors and Auditors. **(Please refer to Explanatory Note 1)**

1. To re-elect Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) who retires as Director of the Company by rotation in accordance with Article 117 of the Company's Constitution, and being eligible, offers himself for re-election. **Resolution 1**

2. To re-elect the following Directors who retires in accordance with Article 123 of the Company's Constitution:

    i. Datuk (Dr.) Hafsah Hashim **Resolution 2**

    ii. Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.) **Resolution 3**

    iii. Dato' Mohd Zahir Zahur Hussain **Resolution 4**

    iv. Datuk Koo Hock Fee **Resolution 5**

    v. Dr. Salmah Bahri **Resolution 6**

3. To approve payment of Directors' fees and meeting allowances for Pharmaniaga Berhad from 21 July 2020 until the conclusion of the next AGM of the Company. **Resolution 7**

4. To approve payment of meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Malaysia from 21 July 2020 until the conclusion of the next AGM of the Company. **Resolution 8**

5. To approve payment of Directors' fees and meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Indonesia from 21 July 2020 until the conclusion of the next AGM of the Company. **Resolution 9**

6. To approve the payment of benefits in kind payable to the Chairman and Directors from 21 July 2020 until the conclusion of the next AGM of the Company: **Resolution 10**

| Description | Chairman | Board Members |
|---|---|---|
| *Benefits in kind* | *Driver, company car, unlimited coverage of medical benefits and other claimable benefits such as petrol and car maintenance* | *Unlimited coverage of medical benefits and mileage* |

# NOTICE OF ANNUAL GENERAL MEETING

7. To approve payment of RM315,880.25 being the purchase of company car for the Chairman during the financial year ended 31 December 2019. **Resolution 11**

8. To approve payment of RM12,200.00 being the Chairman and Directors' benefits in kind from 24 April 2019 until 20 July 2020. **Resolution 12**

9. To re-appoint Messrs. PricewaterhouseCoopers PLT as auditors of the Company and to hold office until the conclusion of the next AGM, at a remuneration to be determined by the Directors. **Resolution 13**

## AS SPECIAL BUSINESS

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

10. **ORDINARY RESOLUTION** **Resolution 14**

**AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016**

"THAT pursuant to Sections 75 and 76 of the Companies Act 2016 and subject to the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the capital of the Company from time to time and upon such terms and conditions and for such purposes as the Directors, may in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are hereby also empowered to obtain approval from the Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next AGM of the Company."

11. **ORDINARY RESOLUTION** **Resolution 15**

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

"THAT, subject always to the Companies Act 2016 ("Act"), the Company's Constitution and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of the mandate granted by the shareholders of the Company on 23 April 2019, authorising the Company and/or its subsidiaries to enter into recurrent transactions of a revenue or trading nature with the Related Parties as specified in Section 2.2 of the Circular to shareholders dated 19 June 2020, provided that the transactions are:

i. necessary for the day to day operations;

ii. carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and

iii. are not to the detriment of the minority shareholders.

**AND THAT** such approval shall continue to be in force until:

i. the conclusion of the next AGM of the Company, at which time it will lapse, unless by a resolution passed at the said AGM, such authority is renewed;

ii. the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

iii. revoked or varied by a resolution passed by the shareholders in a General Meeting;

whichever is the earlier.

**AND FURTHER THAT** the Directors of the Company be authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this Shareholders' Mandate."

12. To transact any other business of the Company of which due notice shall have been received.

By Order of the Board

**WAN INTAN IDURA WAN ISMAIL** (LS0010452)
**SYARUZAIMI YUSOF** (LS0010451)
Secretaries

Kuala Lumpur
19 June 2020

# NOTICE OF ANNUAL GENERAL MEETING

**Explanatory Notes**

**1. Audited Financial Statements**

The Audited Financial Statements laid at this meeting pursuant to Section 340(1)(a) of the Companies Act 2016 are meant for discussion only. It does not require shareholders' approval, and therefore, shall not be put forward for voting.

**2. Ordinary Resolutions 1 to 6 – Proposed Re-election of Directors in accordance with Article 117 and Article 123 of the Company's Constitution**

Article 117 of the Company's Constitution provides amongst others that at least one-third of the Directors who are subject to retirement by rotation or, if their number is not three (3) or multiple of three (3), the number nearest to one-third shall retire from office provided always that all Directors shall retire from office once at least in every three (3) years and shall be eligible for re-election.

At this General Meeting, Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) will be standing for re-election pursuant to Article 117 of the Company's Constitution.

The Nominating and Remuneration Committee ("NRC") of the Company has assessed the criteria and contribution of Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) and recommended for his re-election. The Board endorsed the NRC's recommendation that Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) be re-elected as Director of the Company.

Article 123 of the Company's Constitution provides amongst others that the Directors shall have power at any time and from time to time to appoint any other person to be a Director of the Company, either to fill a casual vacancy or as an addition to the existing Directors, but the total number of Directors shall not at any time exceed the maximum number fixed by or in accordance with the Company's Constitution. Any Director so appointed shall hold office only until the conclusion of the next following AGM of the Company and shall then be eligible for re-election.

Directors who are standing for re-election pursuant to Article 123 of the Company's Constitution are as follows:

i. Datuk (Dr.) Hafsah Hashim
ii. Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.)
iii. Dato' Mohd Zahir Zahur Hussain
iv. Datuk Koo Hock Fee
v. Dr. Salmah Bahri

The profiles of the Directors who are standing for re-election are set out on pages 18, 19, 20, 21, 22 and 23 of the Annual Report, while details of their interests in securities are set out on page 244 of the Annual Report.

**3. Ordinary Resolution 7, 8 and 9 – Non-Executive Directors' Remuneration**

Section 230(1) of the Companies Act 2016 provides amongst others that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at the general meeting.

In respect of this, the Board wishes to seek shareholders' approval for the following payments of Directors' fees and meeting allowances payable to Non-Executive Directors of Pharmaniaga Berhad from 21 July 2020 until the conclusion of the next AGM of the Company in three (3) separate resolutions as set out below:

**Ordinary Resolution 7** seeks approval for payment of Directors' fees and meeting allowances for Pharmaniaga Berhad.

**Pharmaniaga Berhad**

| | | Directors' Fees (annual) (RM) | Meeting Allowance (per meeting) (RM) |
|---|---|---|---|
| Board | Chairman | 170,000 | 1,500 |
| | Senior Independent Non-Executive Director | 120,000 | 1,000 |
| | Independent Non-Executive Director | 90,000 | 1,000 |
| | Non-Independent Non-Executive Director | 90,000 | 1,000 |
| Audit Committee | Chairman | 30,000 | 1,500 |
| | Member | 20,000 | 1,000 |
| Other Board Committees | Chairman | 5,000 | 1,500 |
| | Member | 3,000 | 1,000 |

**Ordinary Resolution 8** seeks approval for payment of meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Malaysia.

**Subsidiaries of Pharmaniaga Berhad in Malaysia**

| | Meeting Allowance (per meeting) (RM) |
|---|---|
| Chairman | 1,500 |
| Member | 1,000 |

**Ordinary Resolution 9** seeks approval for payment of Directors' fees and meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Indonesia.

**Indonesia subsidiaries of Pharmaniaga Berhad**

| | | Directors' Fees (annual) (RM) | Meeting Allowance (per meeting) (RM) |
|---|---|---|---|
| PT Errita Pharma | Chairman<br>Member | 48,000<br>30,000 | 1,500<br>1,000 |
| PT MPI | Member | 30,000 | 1,000 |

4. **Ordinary Resolution 10, 11 and 12 – Director's Remuneration Framework**

Section 230(1) of the Companies Act 2016 provides amongst others that the fees of the Directors and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at the general meeting.

In respect of this, the Board wishes to seek shareholders' approval for the following payments to the Directors of Pharmaniaga Berhad at the Twenty-Second AGM in three (3) separate resolutions as set out below:

**Ordinary Resolution 10** seeks approval for payment of benefits in kind payable to the Chairman and Directors of Pharmaniaga Berhad from 21 July 2020 until the conclusion of the next AGM of the Company comprising the following, with or without modifications:

| Description | Chairman | Directors |
|---|---|---|
| *Benefits in kind* | *Driver, company car, unlimited coverage of medical benefits and other claimable benefits such as petrol and car maintenance* | *Unlimited coverage of medical benefits and mileage* |

**Ordinary Resolution 11** seeks approval for payment of RM315,880.25 being the purchase of company car for the Chairman during the financial year ended 31 December 2019.

**Ordinary Resolution 12** seeks approval for payment of RM12,200.00 being the Chairman and Directors' benefits in kind from 24 April 2019 until 20 July 2020.

5. **Ordinary Resolution 13 – Re-appointment of Auditors**

The Board and Audit Committee of the Company are satisfied with the quality of service, adequacy of resources provided, communication, interaction skills and independence, objectivity and professionalism demonstrated by the External Auditors, Messrs. PricewaterhouseCoopers PLT in carrying out their functions. Being satisfied with the External Auditors' performance, the Board recommends their re-appointment for shareholders' approval at the Twenty-Second AGM.

6. **Explanatory Notes to Special Business**

a) **Ordinary Resolution 14 – Authority for Directors to Allot and Issue Shares**

Ordinary Resolution 14, if passed, will give powers to the Directors to issue up to a maximum of 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company.

This authority will, unless revoked or varied by the Company at a general meeting, expire at the conclusion of the next AGM.

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 Twenty-First AGM held on 23 April 2019, the mandate of which will lapse at the conclusion of the Twenty-Second AGM to be held on 20 July 2020.

b) **Ordinary Resolution 15 – Recurrent Related Party Transactions**

Ordinary Resolution 15, if passed, will enable the Company and/or its Subsidiaries to enter into recurrent transactions involving the interests of related parties, which are of a revenue or trading nature and necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business and on terms not to the detriment of the minority shareholders of the Company ("Mandate").

Further information on the Mandate is set out in the Circular to shareholders dated 19 June 2020.

# NOTICE OF ANNUAL GENERAL MEETING

## Notes

1. As part of the initiatives to curb the spread of Coronavirus Disease 2019 (COVID-19), the AGM will be conducted on **a virtual basis through live streaming and online remote voting** via Remote Participation and Voting (RPV). Both facilities are available on Tricor Investor & Issuing House Services Sdn Bhd's TIIH Online website at **https://tiih.online**.

2. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.

   Shareholders are to participate (including posing questions to the Board via real time submission of typed texts) and vote remotely at the AGM via the RPV provided by Tricor via its TIIH Online website at **https://tiih.online**.

3. The venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairman of the Meeting to be at the main venue. **No shareholders/proxy(ies) from the public will be physically present at the meeting venue on the day of the meeting.**

4. For the purpose of determining who shall be entitled to participate in the AGM via RPV, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, the Record of Depositors as at 10 July 2020. Only members registered in the Record of Depositors shall be entitled to participate in the AGM via RPV.

5. A member of the Company entitled to participate in the AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his/her place. A proxy may but need not be a member of the Company.

6. A member of the Company entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate at the AGM via RPV. Where a member appoints more than one (1) proxy, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

7. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (Central Depositories Act), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.

8. Where a member of the Company is an exempt authorised nominee 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. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of Section 25A(1) of the Central Depositories Act.

9. A member who has appointed a proxy or attorney or authorised representative to participate, speak and vote at the AGM via RPV must request his/her proxy to register himself/herself for RPV at TIIH Online website at **https://tiih.online**. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.

10. The appointment of proxy may be made in a hardcopy form or by electronic means as follows:

    (i) In hard copy form

    In the case of an appointment made in hard copy form, the proxy form must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, no later than Saturday, 18 July 2020 at 9.00 a.m.

    (ii) By electronic form

    The proxy form can be electronically lodged with the Share Registrar of the Company via TIIH Online at **https://tiih.online** (applicable to individual shareholders only). Kindly refer to the Administrative Notes on the procedures for electronic lodgement of proxy form via TIIH Online.

11. Any authority pursuant to which such an appointment is made by a power of attorney must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the AGM or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

12. For a corporate member who has appointed a representative, please deposit the original certificate of appointment with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia. The certificate of appointment should be executed in the following manner:

    (i) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

    (ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

    (a) at least two (2) authorised officers, of whom one shall be a director; or

    (b) any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

13. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the AGM of the Company shall be put to vote by way of a poll.

# PROXY FORM

pharmaniaga®
passion for patients
Co. Reg. No.199801011581 (467709-M)
(Incorporated in Malaysia)

I/We ____________________ NRIC (New)/Passport No./Company No.: ____________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ______________________________________________
(FULL ADDRESS)

being a member of PHARMANIAGA BERHAD, hereby appoint* ____________________
(INSERT FULL NAME IN BLOCK CAPITAL)

NRIC (New) No.: ____________________ of ____________________
(FULL ADDRESS)

______________________________________________
(FULL ADDRESS)

and ____________________ NRIC (New) No.: ____________________

of ______________________________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

______________________________________________
(FULL ADDRESS)

*or failing him/her, the Chairman of the Meeting as my proxy to attend and vote for me on my behalf, at the Twenty-Second Annual General Meeting of the Company to be conducted entirely through live streaming from the broadcast venue at Royale Chulan Damansara, 2 Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Monday, 20 July 2020 at 9.00 a.m. or any adjournment thereof, to vote as indicated below:

| No | Resolution | Ordinary | For | Against |
|---|---|---|---|---|
| 1 | Re-election of Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdullah (Retired) | Resolution 1 | | |
| 2 | Re-election of Datuk (Dr.) Hafsah Hashim | Resolution 2 | | |
| 3 | Re-election of Brigadier General Dato' Mohd Shahrom Mohamad (Rtd.) | Resolution 3 | | |
| 4 | Re-election of Dato' Mohd Zahir Zahur Hussain | Resolution 4 | | |
| 5 | Re-election of Datuk Koo Hock Fee | Resolution 5 | | |
| 6 | Re-election of Dr. Salmah Bahri | Resolution 6 | | |
| 7 | Approval of Directors' fees and meeting allowances for Pharmaniaga Berhad from 21 July 2020 | Resolution 7 | | |
| 8 | Approval of meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Malaysia from 21 July 2020 | Resolution 8 | | |
| 9 | Approval of Directors' fees and meeting allowances to Directors for directorship in Pharmaniaga Berhad subsidiaries in Indonesia from 21 July 2020 | Resolution 9 | | |
| 10 | Approval of payment of Chairman and Directors' benefits in kind from 21 July 2020 | Resolution 10 | | |
| 11 | Approval for purchase of company car for Chairman | Resolution 11 | | |
| 12 | Approval of payment of Chairman and Directors' benefits in kind from 24 April 2019 until 20 July 2020 | Resolution 12 | | |
| 13 | Re-appointment of Messrs. PricewaterhouseCoopers PLT as Auditors | Resolution 13 | | |
| 14 | Approval for Directors to allot and issue shares | Resolution 14 | | |
| 15 | Renewal of shareholders' Mandate for Recurrent Related Party Transactions | Resolution 15 | | |

Dated this ____________ day of ____________ 2020.

______________________________
Signature of Member

| | |
|---|---|
| No. of ordinary shares held: | |
| CDS account no. of authorised nominee: | |
| Proportion of shareholdings to be represented by proxies | First Proxy: ________% <br> Second Proxy: ______% |
| Contact No.: | % |

***Notes***

*(a) As part of the initiatives to curb the spread of Coronavirus Disease 2019 (COVID-19), the AGM will be conducted on **a virtual basis through live streaming and online remote voting** via Remote Participation and Voting (RPV). Both facilities are available on Tricor Investor & Issuing House Services Sdn Bhd's TIIH Online website at **https://tiih.online**. Please follow the procedures provided in the Administrative Notes for the AGM in order to register, participate and vote remotely via the RPV facilities.*

*(b) The venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairman of the Meeting to be at the main venue. **No shareholders/proxy(ies) from the public will be physically present at the meeting venue on the day of the meeting**.*

*(c) For the purpose of determining who shall be entitled to participate in the AGM via RPV, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, the Record of Depositors as at 10 July 2020. Only members registered in the Record of Depositors shall be entitled to participate in the AGM via RPV.*

*(d) A member of the Company entitled to participate in the AGM via RPV is entitled to appoint a proxy or attorney. A proxy may but need not be a member of the Company.*

*(e) A member of the Company entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate at the AGM via RPV. Where a member appoints more than one (1) proxy, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.*

*(f) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (Central Depositories Act ), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.*

*(g) Where a member of the Company is an exempt authorised nominee 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. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of Section 25A(1) of the Central Depositories Act.*

*(h) The appointment of proxy may be made in a hardcopy form or by electronic means as follows:*

*(i) In hardcopy form*

*In the case of an appointment made in hardcopy form, the proxy form must be deposited with the Share Registrar of the Company at Tricor Investor & Issuing House Services Sdn Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, no later than Saturday, 18 July 2020 at 9.00 a.m.*

*(ii) By electronic form*

*The proxy form can be electronically lodged with the Share Registrar of the Company via TIIH Online **http://tiih.online** (applicable to individual shareholders only). Kindly refer to the Administrative Notes on the procedures for electronic lodgement of proxy form via TIIH Online.*

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STAMP

**Share Registrar of Pharmaniaga Berhad**

Tricor Investor & Issuing House Services Sdn Bhd
Co. Reg. No. 197101000970 (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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www.pharmaniaga.com

PHARMANIAGA BERHAD
Co. Reg. No. 199801011581 (467709-M)

No. 7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan
Malaysia

Tel : +603-3342 9999
Fax : +603-3341 7777