pharmaniaga

PUSHING FORWARD

ANNUAL REPORT 2016

Inside This Report

Pushing Forward

Pharmaniaga pushes forward in exploring opportunities and diversifying its business segments with sustainable performance, amidst a volatile economic climate.

You can download this annual report at **www.pharmaniaga.com**

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About US

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

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

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

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 • INTEGRITY • TEAMWORK • EXCELLENCE

At a Glance

PROFIT BEFORE TAXATION
RM72 MILLION

DIVIDEND
16 SEN

REVENUE
RM2.2 BILLION

CAPEX
RM45 MILLION

EMPLOYEES
3,361

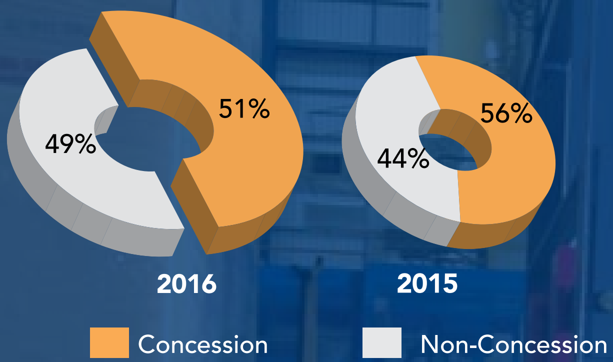
PROFIT AFTER TAXATION
RM46 MILLION

EBITDA
RM151 MILLION

TOTAL ASSETS
RM1.7 BILLION

2016 Key Developments

SHIFT IN REVENUE CONTRIBUTIONS



26%
GROWTH FOR OVERSEAS OPERATION

10%
GROWTH FOR PRIVATE SECTOR BUSINESS

PLANT EXPANSION WITH LYOPHILISATION CAPABILITIES SUCCESSFULLY COMPLETED

* First in Malaysia to manufacture freeze dried chemical based injectable products

KACIP FATIMAH EXTRACTION METHOD PATENT GRANTED FROM THE US PATENT AND TRADEMARK OFFICE

29 PRODUCTS
SECURED HALAL CERTIFICATION

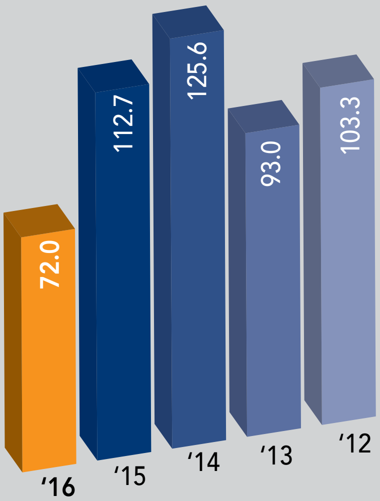
18
NEW PRODUCTS REGISTERED

Five-Year
Financial Highlights

All figures are in RM Million unless otherwise stated		2016	2015	2014	2013	2012
FINANCIAL PERFORMANCE						
Revenue		**2,189.0**	2,189.3	2,122.9	1,946.6	1,812.3
Profit before taxation		**72.0**	112.7	125.6	93.0	103.3
Profit after taxation		**45.9**	84.6	94.2	56.8	63.2
Net attributable profit		**45.6**	84.0	93.8	55.2	61.7
Earnings per share	sen	**17.6**	32.5	36.2	21.3	23.8
Return on equity	%	**8.6**	15.9	18.5	11.5	13.2
Return on assets	%	**6.6**	9.3	12.0	9.2	10.0
Return on revenue	%	**4.8**	5.8	6.6	5.5	6.5
DIVIDENDS						
Dividend payout	%	**90.9**	92.4	77.2	75.1	66.8
Dividend payment		**41.5**	77.7	72.5	41.5	41.2
Net dividend per share	sen	**16.0**	30.0	28.0	16.0	15.9
Dividend yield	%	**3.0**	4.7	6.1	3.6	4.3
Dividend cover	times	**1.1**	1.1	1.3	1.3	1.5
GEARING						
Borrowings		**616.9**	400.2	201.1	199.9	341.0
Gearing	times	**1.2**	0.8	0.4	0.4	0.7
Interest cover	times	**3.1**	5.9	8.4	7.3	7.9
OTHER FINANCIAL STATISTICS						
Net assets per share	sen	**205**	204	203	188	182
Price earning ratio	times	**30.1**	19.6	12.6	20.9	15.4
Paid up share capital		**129.7**	129.4	129.4	129.4	117.7
Shareholders' equity		**530.6**	529.4	526.5	487.6	472.0
Total equity		**559.4**	560.0	552.0	503.3	487.9
Total assets		**1,683.1**	1,495.6	1,242.7	1,111.1	1,222.8

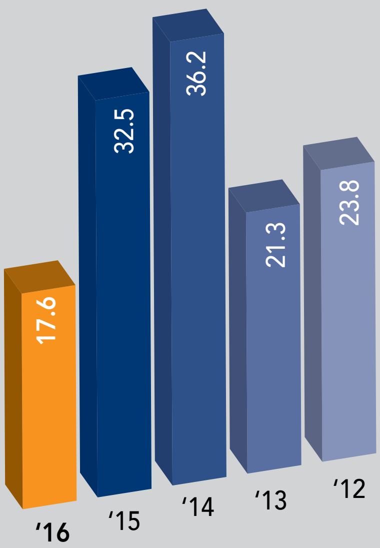
REVENUE
(RM Billion)

PROFIT BEFORE TAXATION
(RM Million)

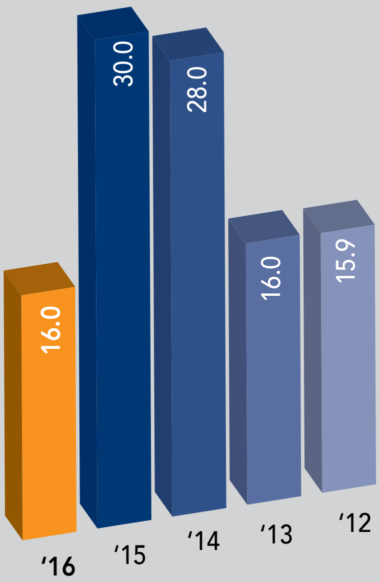


SHAREHOLDERS' EQUITY
(RM Million)

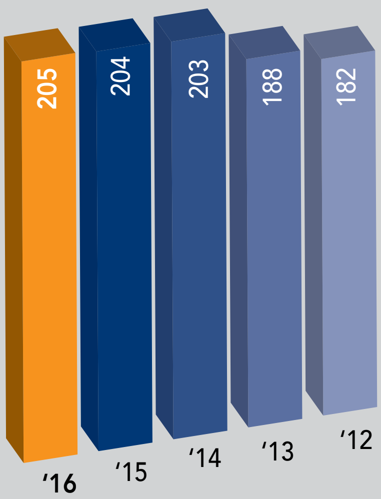
EARNINGS PER SHARE
(sen)



NET DIVIDEND PER SHARE
(sen)



NET ASSETS PER SHARE
(sen)



CORPORATE INFORMATION

BOARD OF DIRECTORS

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

DATO' FARSHILA EMRAN
Managing Director

DANIEL EBINESAN
Non-Independent Non-Executive Director

MOHD SUFFIAN HAJI HARON
Senior Independent Non-Executive Director

IZZAT OTHMAN
Independent Non-Executive Director

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

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

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

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

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

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

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

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

AUDIT COMMITTEE
Chairman
Mohd Suffian Haji Haron

Members
Izzat Othman
Daniel Ebinesan
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

NOMINATION COMMITTEE
Chairman
Mohd Suffian Haji Haron

Members
Tan Sri Dato' Seri Lodin Wok Kamaruddin
Izzat Othman

REMUNERATION COMMITTEE
Chairman
Mohd Suffian Haji Haron

Members
Tan Sri Dato' Seri Lodin Wok Kamaruddin
Izzat Othman

SUSTAINABILITY COMMITTEE
Chairman
Daniel Ebinesan

Members
Mohd Suffian Haji Haron
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)

Financial Calendar

FINANCIAL YEAR

1 January to
31 December 2016

RESULTS

First quarter

Announced
13 May 2016

Second quarter

Announced
19 August 2016

Third quarter

Announced
21 November 2016

Fourth quarter

Announced
21 February 2017

ANNUAL REPORT

Issued
15 March 2017

ANNUAL GENERAL MEETING

To be held
6 April 2017

DIVIDENDS

First interim

Announced
13 May 2016

Entitlement Date
3 June 2016

Payment
28 June 2016

Second interim

Announced
19 August 2016

Entitlement Date
6 September 2016

Payment
20 September 2016

Third interim

Announced
21 November 2016

Entitlement Date
7 December 2016

Payment
15 December 2016

Fourth interim

Announced
21 February 2017

Entitlement Date
9 March 2017

Payment
17 March 2017

AWARDS

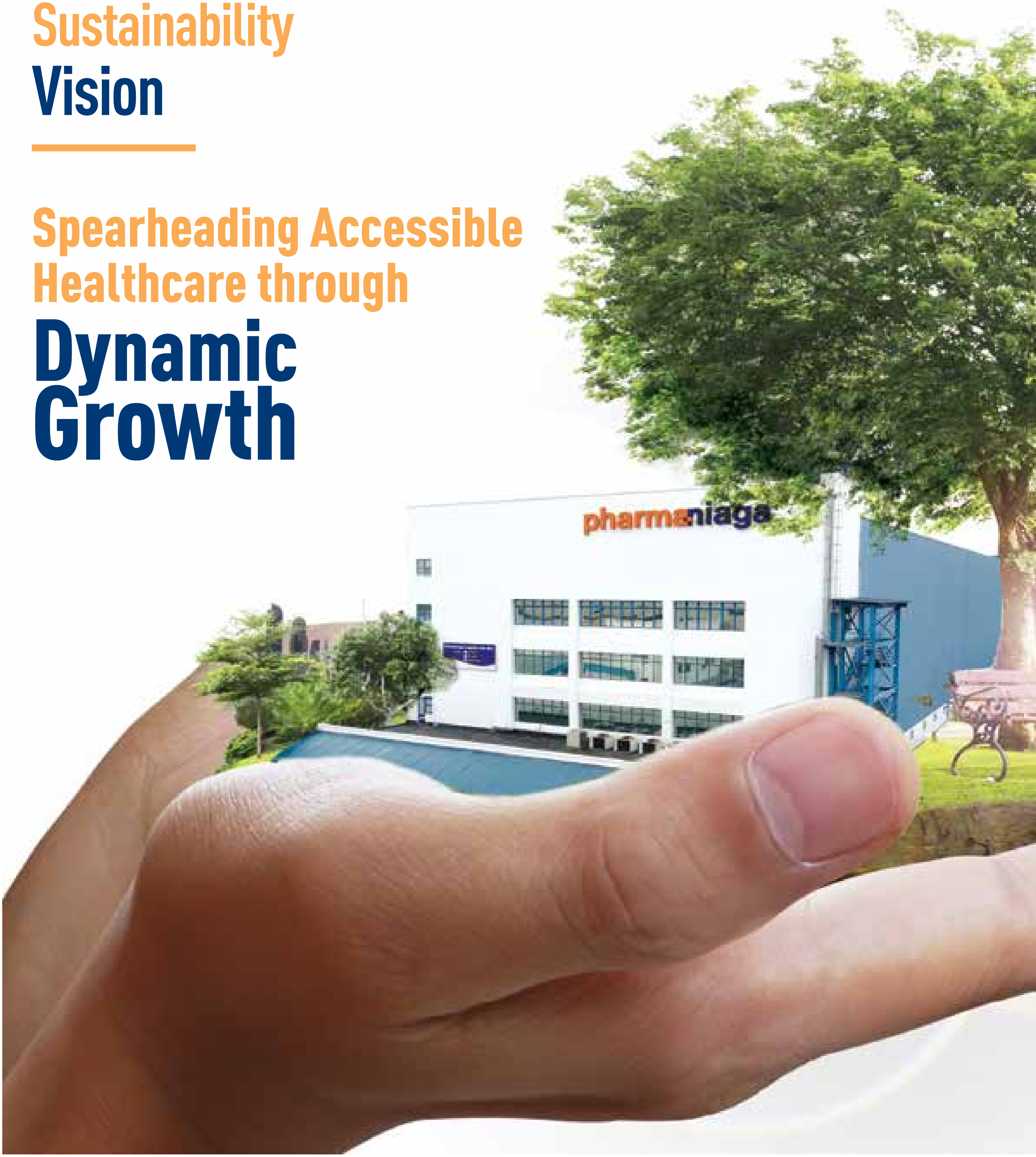
EMPLOYER OF CHOICE 2016

BEST COMPANIES TO WORK FOR IN ASIA 2016

MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS 2016

Sustainability Vision

Spearheading Accessible Healthcare through Dynamic Growth



Our motto of ***Passion for Patients*** drives our approach in doing business and shapes our responsibility to our diverse stakeholders.

As Malaysia's largest integrated pharmaceutical group, we are committed to:

- **Ensuring that high-quality healthcare is accessible and affordable**
- **Extending the reach of our success to positively impact society**
- **Preserving the environment through best practices in logistics and manufacturing**
- **Creating a positive work environment for our employees**
- **Elevating the lives of those in need in the community**

We are committed to fulfilling our sustainability practices across these three core areas of impact:

Economic **Environmental** **Social**

We truly believe that our sustainability priorities play a critical role in helping us achieve sustainable and profitable growth.

Board of Directors

DATO' FARSHILA EMRAN

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN

DANIEL EBINESAN

IZZAT OTHMAN

MOHD SUFFIAN HAJI HARON

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

Profile of Directors

Tan Sri Dato' Seri Lodin Wok Kamaruddin

Chairman

Age : 67
Gender : Male
Nationality : Malaysian

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

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

Board meeting attended in the financial year: 5/5

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

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

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

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

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

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

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

Dato' Farshila Emran

Managing Director

Age : 50
Gender : Female
Nationality : Malaysian

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

Board Committee(s)
None

Board meeting attended in the financial year: 5/5

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

Directorship in other public listed companies
None

Directorship in public companies
None

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

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

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

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

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

She has won several awards including Honorary Mastership by Cyberjaya Unversity College of Medical Sciences 2016; 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.

Profile of Directors

Daniel Ebinesan

Non-Independent Non-Executive Director

Age : 71
Gender : Male
Nationality : Malaysian

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

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

Board meeting attended in the financial year: 5/5

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

Directorship in other public listed companies
None

Directorship in public companies
MHS Aviation Berhad

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

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

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

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

Mohd Suffian Haji Haron

Senior Independent Non-Executive Director

Age : 71
Gender : Male
Nationality : Malaysian

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

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

Board meeting attended in the financial year: 5/5

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

Directorship in other public listed companies
None

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

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

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

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

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

Profile of Directors

Izzat Othman

Independent
Non-Executive Director

Age : 55
Gender : Male
Nationality : Malaysian

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

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

Board meeting attended in the financial year: 5/5

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

Directorship in other public listed companies
None

Directorship in public companies
None

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

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

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

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

Independent
Non-Executive Director

Age *:* 61
Gender *:* Male
Nationality *:* Malaysian

Date of first appointment to the Board
29 December 2011
Date of last re-election
2 April 2014

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

Board meeting attended in the financial year: 5/5

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

Directorship in other public listed companies
None

Directorship in public companies
None

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

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

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

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

Senior Management Team

ZULHAZRI RAZALI

SHARIFAH FAUZIYAH SYED MOHTHAR

MOHAMED IQBAL ABDUL RAHMAN

DATO' FARSHILA EMRAN

ABDUL MALIK MOHAMED

DATIN SHAMSINAR HJ SHAARI

NORAI'NI MOHAMED ALI

YANG FAIRUZ ABDUL AZIZ

Profile of Senior Management Team

DATO' FARSHILA EMRAN
Managing Director
Age : 50
Gender : Female
Nationality : Malaysian

As expressed on page 17 of the Profile of Directors

MOHAMED IQBAL ABDUL RAHMAN
Chief Operating Officer
Age : 53
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 June 2012

Working experience
Mohamed Iqbal was appointed as the Information Technology Director of Pharmaniaga in 2011 and later promoted as the Chief Operating Officer in 2012. Prior to that, he was the Head of Operations at Faber Medi-Serve Sdn Bhd that managed facility management, biomedical management and healthcare waste management for hospitals in Malaysia. He has over 25 years of experience in the field of System Improvement & Operations Management in various industries.

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

Profile of Senior Management Team

NORAI'NI MOHAMED ALI

Chief Financial Officer

Age : 50
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 June 2012

Working experience
Norai'ni joined Pharmaniaga in 2001 as the Deputy General Manager of Group Finance before being promoted as the Chief Financial Officer in 2012. She also sits on the Boards of local and overseas subsidiaries of Pharmaniaga Group. Prior to joining the Company, Norai'ni was attached to Opus Group Berhad, a subsidiary of UEM Group Berhad for 8 years. She has vast experience for more than 25 years in accounting and finance.

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

DATIN SHAMSINAR HJ SHAARI

Technical Director
Age : 63
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 April 2011

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

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

Profile of Senior Management Team

ABDUL MALIK MOHAMED

Logistics & Distribution Director
Age : 51
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 April 2011

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

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

SHARIFAH FAUZIYAH SYED MOHTHAR
Regulatory Affairs Director
Age : 46
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 April 2011

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

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

Profile of Senior Management Team

ZULHAZRI RAZALI

Commercial Director
Age : 49
Gender : Male
Nationality : Malaysian

Date of appointment to present position
1 June 2014

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

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

YANG FAIRUZ ABDUL AZIZ
Head of Community Pharmacy
Age : 44
Gender : Female
Nationality : Malaysian

Date of appointment to present position
1 October 2015

Working experience
Yang Fairuz was appointed as the Head of Community Pharmacy of Pharmaniaga in 2015, managing RoyalePharma Pharmacy and Vendor Development Programme. Prior to that, she was attached to Compagnie Generale de Geophysique Asia Pacific (CGGAP) and Geosciences and Petroleum Engineering Headquarters, Schlumberger. She has vast experience in sales, business development, operations, human resource and project management.

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

Any directorship in public companies and public listed companies
None

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

Any conflict of interests with the Company
None

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

Nurturing Leaders

Fully cognisant of the fact that our employees are our most important asset, we have put in place a structured succession plan to cultivate and nurture our talents into becoming great leaders capable of propelling the Group forward.

Chairman's Statement

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
Chairman

"We keep pushing forward, opening new doors and exploring prospects"

Dear Shareholder,

Surviving in today's ever-changing economic climate demands the best from businesses, more so in the hypercompetitive pharmaceutical sector. During the year, Pharmaniaga Berhad pushed forward with a strong resolve to ensure long-term business sustainability despite the external conditions.

ECONOMIC LANDSCAPE

The United Nations' recent World Economic Situation and Prospects 2017 report has indicated that the world economy expanded by a mere 2.2% in 2016. This signifies the slowest rate of growth the world economy has experienced since 2009.

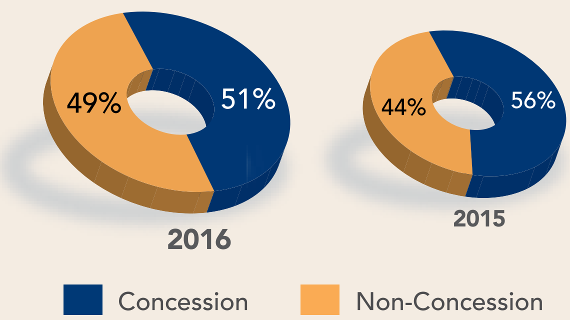
Amidst the overcast and sluggish global economic growth, Malaysia's economy maintained a stable Gross Domestic Product of 4.2% in 2016. However, the Ringgit remains fragile against the US dollar. Bank Negara Malaysia's moves to clamp down on offshore trading and its decision to keep its benchmark interest rate unchanged is expected to have a positive impact on the economy.

Chairman's Statement

FINANCIAL PERFORMANCE

Pharmaniaga's revenue for the fiscal year ended 31 December 2016 stood firm at RM2.2 billion. The year was most certainly a challenging one; amidst a subdued economic backdrop, reduced Government orders in addition to increasing operating costs, the Group was able to clock in a positive profit before taxation of RM72 million.

In line with our strategy to expand beyond our concession business, we saw encouraging growth in our non-concession business, which contributed 49% to the Group's revenue for the year, while the concession business contributed 51%.



Total Dividend
16 SEN
PER SHARE

DIVIDEND PAYOUT
RM41.5
MILLION

We have strengthened our liquidity position through various measures, namely operational efficiencies and prudent cost management which enabled us to achieve strong shareholder value during these trying times.

To reflect this, the Group's market capitalisation was RM1.4 billion and shareholders' funds stood at RM531 million while gearing ratio was 1.2 times. Earnings per share stood at 17.6 sen and net assets were RM2.05 per share.

DIVIDEND

Despite the challenging economic environment, we remain committed to enhance our shareholder value. Thus, the Board of Directors declared a fourth interim dividend of 3 sen per share which will be paid on 17 March 2017 to shareholders on the register as at 9 March 2017. Total dividend for the year will be 16 sen per share.

Total dividend payout of RM41.5 million represents a payout ratio of 91% with a dividend yield of 3% based on the closing share price for the financial year.

We empower our employees with the choice to navigate their own career paths. Employees are provided access to the tools and resources required to not only grow, but thrive.

HUMAN CAPITAL

To strengthen our leadership position in the pharmaceutical industry, we are conscious of the need to invest in our competitive advantage, our people. Indeed, our long-term growth is predicated on the strength of our talent base. Throughout the year, we invested strategically to attract and retain high performing talent.

We empower our employees with the choice to navigate their own career paths. Employees are provided access to the tools and resources required to not only grow, but thrive. During the year, we successfully executed a share issuance scheme to incentivise our talent pool as well as attract future employees.

Our talent management strategy allows us to ensure a healthy pipeline of strong leaders and high calibre employees. This in turn leads to business continuity and growth. We have also put in place an on-the- job training programme for fresh graduates under Skim Latihan 1Malaysia and an internship programme for students from various universities at our subsidiaries.

The Group's excellent reputation as an employer has consistently grown particularly over the last few years and our multiple awards in the field of human resources confirms this. This has cemented Pharmaniaga's position as one of the most sought after employers in Malaysia's pharmaceutical industry.

Chairman's Statement

SUSTAINABILITY

At Pharmaniaga, sustainability is deep-rooted in all our decision making. Our goal is to ensure that we positively impact our patients, consumers, employees, communities as well as our shareholders. We firmly believe that doing business with a conscience is integral in order to sustain our business success.

As a conscientious corporate citizen, your Group is ever mindful of the responsibility to stakeholders, be it internal or external. This year, we have taken the initiative to launch our Sustainability Report, which is embedded in this Annual Report.

In line with our Sustainability Vision of *Spearheading Accessible Healthcare through Dynamic Growth*, the report highlights the efforts and practices across the three core areas of economic, environmental and social. I trust the information in the Sustainability Report will provide a clear overview of our efforts in these areas.

This year saw us establishing a Group Sustainability Committee comprising a Board Committee and a Management Steering Committee that will propel the Group's sustainability efforts while setting clear benchmarks for sustainable development.

OUTLOOK

As reported by the United Nations, the world's population is expected to grow to 8.5 billion by 2030, with a majority of the growth attributed to developing countries. However, at the same time, most regions are expected to see a substantial population ageing in the subsequent few decades.

An aging and growing world population offers both new opportunities and new challenges for the healthcare sector. It signals an evolution in the healthcare needs of patients, which in turn entails that we too need to evolve to grow in the long run.

We firmly believe that doing business with a conscience is integral in order to sustain our business success.

As part of the 2017 Budget, the Malaysian government has laudably allocated RM25 billion for healthcare programmes including the building and upgrading of new healthcare infrastructure across the country. As for Indonesia, the government launched a plan to extend healthcare coverage to 100% of its population of close to 240 million citizens by 2019.

Many established products are expected to lose their patents over the next few years. This, coupled with accelerated efforts to reduce healthcare costs presents growth opportunities for the Group and for the growth of the generics industry.

We are responding to this opportunity by intensifying our research and development efforts which have shown rapid and significant progress throughout the year. To this end, we expect to have more than 250 new products to be developed by 2024.

While the Group is well positioned to tap into opportunities for growth, we are also conscious of the challenges posed by the volatile global economy as well as the possibility of lower orders from our concession business. Nevertheless, we foresee more promising growth in the private sector business and our overseas operations. We will also focus on driving operational efficiency efforts as we reinforce our leadership position in the market.

ACKNOWLEDGEMENT

Our continued growth has indeed been the result of a collective effort. As we move forward into another year of opportunities, I wish to convey our sincerest appreciation to all who have worked hard to ensure Pharmaniaga stays on top.

On this score, I would like to express my sincere appreciation to the Board for their invaluable and insightful contributions to the Group. To the management team and all members of the Pharmaniaga family, thank you for your perseverance and dedication.

To our shareholders, we are grateful for your support and we are committed to enhance shareholder value.

Our appreciation and gratitude also go out to our key client, Ministry of Health, other customers, suppliers, partners, bankers as well as the relevant authorities in Malaysia and internationally whose invaluable support has played a great part in our achievements over the years.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
Chairman

Managing Director's Review

DATO' FARSHILA EMRAN

Managing Director

"Challenges present us with opportunities"

Dear Shareholder,

Challenges present us with opportunities to rise to the occasion and go beyond the norm. Undeniably, 2016 was not without its fair share of challenges, in the form of a global economic downturn and slower growth. Despite that, Pharmaniaga Berhad continued to demonstrate resilience and sound operational management as we weathered through the year to maintain our leadership position in the pharmaceutical industry in Malaysia.

FINANCIAL PERFORMANCE

The Group recorded a satisfactory performance for the year under review by implementing ongoing enhancement programmes and operational optimisation activities, fully supported by our dedicated and talented team.

Revenue stood at RM2.2 billion, which was at par with the previous year. While our bottom line was impacted by the tough global economic environment, we were able to achieve a profit before taxation of RM72 million.

The Group invested a total of RM45 million in capital expenditure during the year. Given our emphasis on continuous improvement across all our operations, we are allocating approximately RM60 million in capital expenditure for 2017, which will include upgrading of manufacturing equipment and facilities as well as a warehouse expansion programme to enhance storage capacity. Our strategy going forward is to continuously enhance our prudent cost efficiencies.

REVENUE STOOD AT
RM2.2B

PROFIT BEFORE TAXATION
RM72M

Managing Director's Review

PHARMACY INFORMATION SYSTEM (PhIS) AT OVER 1,100 FACILITIES AROUND THE COUNTRY

OPERATIONAL HIGHLIGHTS

We remain firmly dedicated and driven in delivering the best service levels to our customers, as evidenced by 99.8% of our orders being successfully delivered in a timely manner. We will not compromise in our efforts to offer the highest standards of service to our entire range of clientele and to enhance our facilities and processes in line with this goal.

Based on our customer satisfaction surveys conducted in 2016 with the Ministry of Health (MOH) and the Ministry of Higher Education, we received positive ratings from respondents, ranging from 'Good' to 'Excellent'.

In 2016, the Group succeeded in growing our clientele to include three new teaching hospitals and institutions in Malaysia, namely Universiti Teknologi Mara, Universiti Islam Antarabangsa and Institut Jantung Negara. These organisations benefitted from this arrangement by capitalising on Pharmaniaga's efficiency as MOH's concession holder in delivering medical products.

The year also witnessed the completion of the implementation of the Pharmacy Information System (PhIS) at over 1,100 facilities around the country. This real-time central database system is key to the needs of pharmacies at Government hospitals and clinics nationwide. Indeed, it was an achievement for us to meet our commitment to deliver an efficient support system for hospitals and clinics, which has received high commendations from MOH. Although we are not in the Information Technology sector, our expertise in the field of pharmaceuticals provided us with a competitive advantage in developing and driving the PhIS.

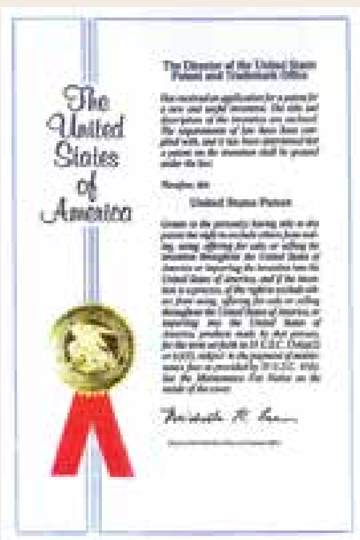
Over the past several years, we are proud to share that our non-concession business has become an increasingly important area of growth within the Group. This once again held true during the financial year, as it performed well in sales despite the challenges.

Our non-concession business contributed 49% to our total revenue of which 29% came from overseas operations. We delivered on our goal to expand our international product portfolio, with a total of 210 approved registrations in 14 countries worldwide to date. Most notably, we succeeded in obtaining market authorisation in Portugal for one of our products, marking our first Pharmaniaga product ready to be sold in the European market.

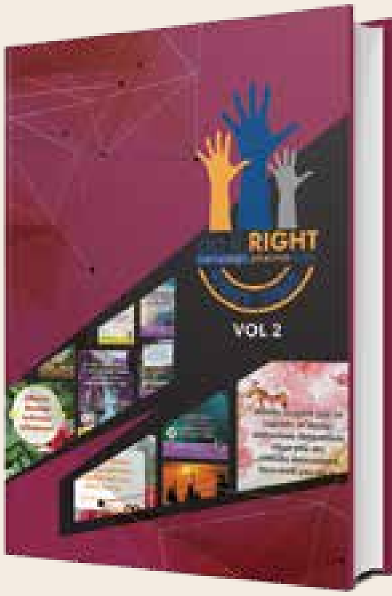
We are pleased to inform that our plant expansion activities are progressing smoothly with the establishment of lyophilisation capabilities. Towards this end, we have garnered excellent support from the Malaysian Investment Development Authority (MIDA) for international certification and accreditation.

The halal sector in Malaysia has grown exponentially which has resulted in a larger portfolio of halal products offered by Pharmaniaga. Our edge in halal compliance has attracted many foreign pharmaceutical manufacturers that wish to study our halal journey and further explore the possibility to contract manufacture their products.

Pharmaniaga has also invested in the development of phytomedicines via collaborations with both local and international partners, and hope to successfully produce clinically proven products, namely with our Kacip Fatimah (KF) and Patawali projects. Significantly, Pharmaniaga's efforts to patent our KF extraction method in Malaysia and the United States was rewarded with our first patent grant from the United States (US) Patent and Trademark Office during the year.



We are ever mindful of the need to enhance our product portfolio to remain ahead of the curve within the sector. The Group successfully acquired a bionexus company during the financial year. Given that it is the sole manufacturer for collagen-derived medical devices in Malaysia, this acquisition has provided Pharmaniaga with a competitive edge in this market segment.



The Group launched our Do It Right First Time (DIRFT) campaign with the aim of instilling a sense of accountability, ownership and responsibility amongst our employees.

Compliance culture

As a result of new developments throughout the financial year and being a responsible as well as a leading ethical pharmaceutical manufacturer, we took steps to ensure that we were in full compliance with regulatory guidelines. Following through from our previous compliance campaign last year, in 2016 the Group launched our Do It Right First Time (DIRFT) campaign with the aim of instilling a sense of accountability, ownership and responsibility amongst our employees.

Through various activities from workshops, webinars and dialogue sessions, employee inductions and site audits, the DIRFT campaign sought to improve three core themes, namely Customer Focus, Teamwork & Integrity and Continual Improvement. Our Company's motto *Passion for Patients* will always be the main driver in our business delivery and this philosophy has positively impacted our operations. We carry this philosophy with us all the time and strive to serve the people efficiently.

Managing Director's Review

We are proud to have received multiple Human Resources awards in 2016 such as Employer of Choice (Silver Award), Best Companies to work for in Asia 2016 and Malaysia's 100 Leading Graduate Employers Award 2016.

Nurturing talents

Our employees form the backbone of the Group, and it is through their hard work and talent that we are able to continue achieving our mandate of delivering shareholder value. As testament to our commitment to create a conducive and positive work environment, we are proud to have received multiple Human Resources awards in 2016 such as Employer of Choice (Silver Award), Best Companies to work for in Asia 2016 and Malaysia's 100 Leading Graduate Employers Award 2016.

Given the importance of empowering our talent pool and inspiring open communication, we have implemented a 360° evaluation programme, which allows our employees to review and rate their superiors. This initiative has received positive response across all departments towards the overall betterment of talent management. Pharmaniaga intends to continue engaging with our employees to boost morale and motivate them with ongoing initiatives throughout the coming year.

In tandem, we are actively striving to attract new and skilled individuals, through our internship programme, as we believe this will help us retain our competitive edge in the market. Strategic branding activities along with the introduction of new benefits and initiatives will support our efforts in this regard, which we are confident will significantly contribute to strengthening our talent pool.

Promising future

Although market sentiment in 2017 remains challenging, we believe that there are opportunities for growth in Malaysia's healthcare industry, particularly with the Government's continued support. The allocations for the sector announced under Budget 2017 represent positive prospects that Pharmaniaga will be able to leverage on, as we strive to position ourselves in order to meet new demands.

We are embarking on a new project that will result in the introduction of innovative and affordable drugs.

The Group is optimistic as we look ahead. Our focus remains on strengthening our catalogue of products through the dedicated efforts of our research and development team. Cutting edge innovation is central to our product development as we look to solidify our position as a leading generics player in the marketplace.

We are embarking on a new project that will result in the introduction of innovative and affordable drugs for the treatment of a type of viral infection that has impacted an estimated 200 million people worldwide. The project is a collaboration between two global companies and the Government of Malaysia, and Pharmaniaga will be the registration holder for these drugs. Thus, we will receive technology transfer for local manufacturing and the rights to distribute the drugs in this region.

Pharmaniaga will also expand its business to include cancer treatment by bringing in the latest oncology drugs to hospitals in Malaysia. By partnering with international companies, Pharmaniaga strives to further expand its capabilities in the manufacture of the latest oncology drugs.

We hope you will find the review of our two key divisions in the following pages informative. While the 2017 financial year may bring its fair share of difficulties, the Group's solid fundamentals are in place to keep us on track. Coupled with our cost optimisation strategies and focus on sustainable excellence, Pharmaniaga will certainly remain resilient amidst a challenging environment.

The financial year 2016 has truly been an eventful one, and I am grateful to the Board of Directors for their ongoing support and guidance on this journey to take the Group to greater heights. In the same vein, our skilled management team and loyal employees have gone above and beyond the call of duty, displaying tenacity and commitment in driving Pharmaniaga further.

As always, the Group would like to record our sincere appreciation to our customers, suppliers, business partners, shareholders and relevant approving authorities for their continued support.

DATO' FARSHILA EMRAN
Managing Director

Operations Review

MANUFACTU

RING

PLANT EXPANSION WITH LYOPHILISATION* CAPABILITIES SUCCESSFULLY COMPLETED

* First in Malaysia to manufacture freeze dried chemical based injectable products

KEY DEVELOPMENTS

29 PRODUCTS
SECURED HALAL CERTIFICATION

Operations Review: Manufacturing

The Manufacturing Division recorded a profit before taxation of RM87 million and we continue to implement strong operational and sustainability initiatives which successfully improved cost savings across our manufacturing facilities.

OUR BUSINESS OPERATION

We undertook new efforts to include the manufacture of medical devices as part of our portfolio through the acquisition of a bionexus company, manufacturing collagen-derived medical devices in Malaysia. This will allow the Group to supply products for the treatment of burn patients. Tapping into this new market, we have begun reviewing products as well as submitted applications for Halal and CE certifications. We are confident that this will serve to further drive sales and increase market share, with the aim of eventually entering the international market.

COST SAVINGS APPROXIMATELY RM3.0 MILLION

48 PRODUCTS WERE ADDED TO THE PIPELINE

As part of our focus on continuous improvement, we have successfully upgraded our existing manufacturing plants for the production of various products. Cycle times for our key products have been significantly reduced, whilst batch sizes for a selection of products were increased. In the same vein, the installation of new machinery allowed higher levels of manufacturing output.

These initiatives, not to mention our process and yield improvement programmes and enhanced procurement exercises, cumulatively served to lower unit costs for each product. In particular, the procurement enhancement programme led to cost savings of approximately RM3.0 million for the year under review, via informed price negotiations for key pharmaceutical ingredients and packaging materials.

These collective efforts have contributed to transforming the Division into one that is highly competitive in the marketplace.

We are pleased to inform that our plant expansion activities continue to progress smoothly. With

an investment in the region of RM30 million for lyophilisation capabilities, we have successfully completed the development of three new, high-value pharmaceutical products.

In line with our enhanced productivity, the Division has made significant strides in expanding our range of products. In 2016, 48 new products were added to the pipeline, 23 of which were fully developed over the course of the year. The remaining products are in various stages of development, with the aim of submission in 2017. The Group also achieved a milestone with our first product to be licensed and sold in Europe.

Our Indonesian operations, PT Errita Pharma's initiatives include increasing the number of prescribed and over-the-counter products.

Taking into consideration the strong potential presented by the halal sector in Malaysia, we have accelerated our efforts for this particular market. We have secured halal certification for 29 products, with an additional two in the process of being halal-certified. Clearly, the benefits of halal certification are enormous and we are committed to expanding certification within our portfolio of products in the coming years.

Given the Group's expansion plans for both the short and long term, strict adherence to compliance requirements is a core aspect of our operations. With this in mind, we implemented the Do It Right First Time (DIRFT) campaign in January 2016, as an extension of our original Do It Right exercise. DIRFT strives to enhance product quality, reduce cycle times and improve overall supply chain management, with a view towards cultivating a Quality Culture within the Group.

To support this, the Pharmaniaga Integrated Quality System (PIQS) was implemented across all our plants in September 2016. PIQS will serve to standardise and create a single quality system for our manufacturing facilities, which will lead towards reduced operation costs, streamlined best practices, greater market access and other benefits.

Our Indonesian operations, PT Errita Pharma's initiatives include increasing the number of prescribed and over the counter products. This will be complemented by facility upgrades, procurement exercises, cost and process improvements as well as compliance enhancements.

Operations Review: Manufacturing

BY 2024, EXPECTED TO DEVELOP

>250

NEW PRODUCTS

RESEARCH AND DEVELOPMENT

Advancements in the sector and within the Group are only possible with strong and consistent research and development (R&D) initiatives. Pharmaniaga's dedicated R&D efforts have paved the way for the Division's growth over the years, and remains one of our key pillars in maintaining our pole position within the pharmaceutical industry in Malaysia.

Our state-of-the-art facilities have enabled us to develop new high-quality products that cater to various categories, from cardiovascular, respiratory, gastrointestinal and analgesics to anti-infectives, anti-diabetics and beyond. By 2024, we expect to have successfully developed in excess of 250 new products.

As full fledged ethical pharmaceutical company, Pharmaniaga is fully committed to ensuring that all our initiatives will not compromise the quality, safety and efficacy of our products in any manner. Bioequivalence studies are conducted on our generic products containing scheduled poisons to verify that they are bioequivalent to the innovator products and clinically interchangeable.

The Group also took all efforts to ensure compliance with preclinical and clinical studies, along with pharmacovigilance activities. In term of the latter, we are strengthening our pharmacovigilance system in line with the standards and requirements in ensuring continuous monitoring on the safe use of our medical products by the public.

Our state-of-the-art facilities have enabled us to develop new high-quality products that cater to various categories, from cardiovascular, respiratory, gastrointestinal and analgesics to anti-infectives, anti-diabetics and beyond.

Aside from our generic products, Pharmaniaga has invested in the development of phytomedicines. Via collaborations with both local and international partners, we hope to successfully produce clinically proven products.

Through our Kacip Fatimah (KF) and Patawali projects, we hope to elevate the standards of phytomedicine in Malaysia. Our efforts to patent our KF extraction method in Malaysia and the United States (US) were rewarded with our first patent grant from the US Patent and Trademark Office in 2016. This is a vital patent, as it guarantees the uniqueness of our KF extraction method, which was optimised to produce high quality, standardised KF water extract with high yields. Preclinical tests conducted in an accredited laboratory in Sydney, Australia, further demonstrated the safety, quality and efficacy of the extract.

The Group intends to develop and patent the formulation of the finished product and subsequently commence manufacturing. Ultimately, we hope to register and commercialise KF as a safe, high quality and effective phytomedicine specifically for women's health conditions.

The Patawali project has completed all preliminary preclinical studies as well. Working closely with the Forest Research Institute Malaysia and Universiti Putra Malaysia, we have begun planning for further studies in order to proceed to product development, prototype manufacturing, clinical trials and eventual commercialisation of the product.

Operations Review

LOGISTICS & DISTRIBUTIO

24%
GROWTH FOR PT MILLENNIUM PHARMACON INTERNATIONAL TBK

10%
GROWTH FOR PRIVATE SECTOR BUSINESS

KEY DEVELOPMENTS

18
NEW PRODUCTS REGISTERED

Operations Review: Logistics & Distribution

MALAYSIA

Pharmaniaga continued to uphold our commitment to providing excellent service levels under our Concession Agreement (CA) with Ministry of Health (MOH). Out of the approximately 113,000 orders received during the year, 99.8% were successfully delivered to MOH health facilities across Malaysia within the agreed-upon timeline of seven days for Peninsular Malaysia and 10 working days for Sabah and Sarawak. Similarly, our Customer Care Call Centre achieved a 94% success rate for incoming calls answered within 15 seconds, a significant improvement from the previous year.

Dialogue sessions organised with State Health Departments earned us an average of 98% for 'excellent' and 'good' responses. These strong ratings are a clear testament of our dedication to delivering quality service to our customers, in line with the Group's motto, *Passion for Patients*.

The Division was conscientious in efforts to ensure our capability to meet any unexpected increases in demand over the year, via maintaining an optimal stock buffer level at all our Distribution Centres. Buffer inspection activities were also conducted on a regular basis in accordance with the CA.

Moreover, the Group remains unwavering in our drive for continuous improvement in terms of efficiency and processes. Ongoing streamlining of our order processing, cold chain handling as well as cold room facilities took place throughout the year along with the implementation of new upgrades at our branches nationwide. Indeed, skill expansion plans are in place for our new northern branch warehouse, boasting a pallet space capacity of 20,000.

Given the rapid growth and vast opportunities within the halal sector, the Division commenced Halal Certification activities. We are well on track to be fully-compliant with halal guidelines in terms of both storage and transportation in 2017.

Out of the approximately 113,000 orders received during the year, 99.8% were successfully delivered to MOH health facilities across Malaysia within the agreed-upon timeline of seven days for Peninsular Malaysia and 10 working days for Sabah and Sarawak.

INTERNATIONAL MARKETS

Pharmaniaga's international operations have grown significantly despite the highly competitive market especially in Indonesia. Net sales for our Indonesian listed subsidiary PT Millennium Pharmacon International Tbk (MPI) stood at RM600 million in 2016, up from RM486 million in the previous year. Products under MPI's ethical category were the key contributor to overall sales.

Sales of over the counter medications and medical consumable products saw significant growth. This is testament to the Group's strategy to diversify our portfolio of products in order to capitalise on opportunities in the market.

Following the opening of our new branch in Jawa Timur and the acquisition of a new facility in Sumatera, MPI now has an established presence in 31 major cities across Indonesia and successfully secured distribution rights with four new principals.

To further strengthen MPI's position in the market, a new marketing team was established to boost sales and marketing efforts of our own products.

As always, ensuring compliance is our key focus. Our commitment in this regard saw 12 MPI branches achieving Good Distribution Practice certifications with remaining branches to be fully certified in 2017. In tandem, MPI also enhanced compliance monitoring standards across its operations.

With further expansion plans in the pipeline for MPI, greater efficiency and productivity is crucial. Towards this end, we implemented new initiatives to improve service levels utilising information technology as a key driver. Moreover, ongoing discussions were held with MPI's principals on reducing turnaround times for payment cycles. MPI also launched trucking services in 2016 as a means of mitigating higher delivery costs.

MPI intends to continue exploring fresh opportunities in order to capture a larger market share in the future. In line with this, substantial investments were made towards training programmes for our talent pool, with a focus on improving competencies, knowledge and relevant skills.

As we have an existing market presence, Indonesia continues to be integral to our international segment. During the year, 11 new product applications were submitted within the country, with the expectation of obtaining approval in 2018 onwards.

Net sales for our Indonesian listed subsidiary PT Millennium Pharmacon International Tbk (MPI) stood at

RM600 MILLION

Operations Review: Logistics & Distribution

PHARMANIAGA'S TOTAL PORTFOLIO

430 PRODUCTS

TRADING

Throughout 2016, we maintained our focus on expanding our range of product offerings within Malaysia. Iqnyde, which was launched in 2015, yielded an encouraging growth as a result of being one of the first-to-market generic products. Having captured more than 30% of total market share to date, we are confident that this pioneer product will continue to perform strongly moving forward.

On the same note, our other generic products performed well over the course of the financial year, with Zithrolide and Aspira being the frontrunners with 10% and 9% growth respectively. Meanwhile, our products such as Simvastatin, Co-Amoxicillin and Xylid also delivered positive growth.

In addition, we have strengthened our partnerships with leading global manufacturers, which in turn bolstered our product portfolio with unique, high quality and innovative brands. We have collaborated with reputable partners in Italy for our Dermatology, Respiratory and Oral care range of products.

On the whole, 28 medical devices were under review by the Medical Device Authority in 2016, while 18 new products successfully obtained registration approval from National Pharmaceutical Regulatory Agency under the health supplements, over the counter medications, antibiotics, imported blood products and cosmetic categories. More over, 12 more product applications were submitted for approval. Pharmaniaga's total portfolio now stands at 430 products.

We have successfully launched our latest cosmetic product, Nigella Therapy, which is now available at our RoyalePharma outlets across Malaysia. This product is our initiative to provide consumers with a safe and effective skincare products that has undergone 30 years of extensive research.

Our business within the retail pharmacy segment, RoyalePharma Pharmacy, saw steady growth during the financial year. With enhanced capacity from the opening of a new warehouse, RoyalePharma was able to strengthen its strategic partnerships with other independent pharmacies under its network of alliance members. Importantly, steady and consistent efforts to generate awareness was driven through social media platforms.

We have successfully launched our latest cosmetic product, Nigella Therapy, which is now available at our RoyalePharma outlets across Malaysia. This product is our initiative to provide consumers with a safe and effective skincare products that has undergone 30 years of extensive research.

CORPORATE VALUES

It will not be possible for Pharmaniaga to be where we are at today, without the support of our unsung heroes. Pushing forward, with the highly engaged team that we now have, coupled with our *Passion for Patients* that is embedded in us, we at Pharmaniaga are confident that we will excel in delivering above and beyond our limits.

Corporate Values : *Unsung Heroes*

I believe everyone has a place in the organisation. The sky is the limit when we respect and recognise each other's abilities and skills.

DATO' FARSHILA EMRAN
Managing Director

There is no limit to what we can achieve as long as we put our minds together. Synergy can be accomplished when a great team work together harmoniously. With good synergy and teamwork - opportunities are endless.

NORAI'NI MOHAMED ALI
Chief Financial Officer

Competency is important in order to effectively execute assigned duties and responsibilities. We emphasise on good support system to grow employees' skills, which ultimately add value not just for the business but also for the professional development of our talents.

MOHAMED IQBAL ABDUL RAHMAN

Chief Operating Officer

When you give your best always and in all ways there is nothing that we can not achieve together.

DATIN SHAMSINAR HJ SHAARI

Technical Director

Corporate Values : *Unsung Heroes*

In order to win in the marketplace, we must first win in the workplace. Everyone needs to know that they matter and they are part of the winning team.

ABDUL MALIK MOHAMED
Logistics & Distribution Director

Happy employees lead to satisfied customers. Therefore I always focus on the importance of keeping our customers satisfied above all else. Accountability and ownership of the business will then naturally fuel our passion in serving our customers.

ZULHAZRI RAZALI
Commercial Director

It is our responsibility to always put ourselves in other's shoes. It is not merely about listening and empathising, but also acknowledging and responding to society's needs.

SHARIFAH FAUZIYAH SYED MOHTHAR

Regulatory Affairs Director

Staying true to our core value "Care With Passion", starts with our daily interactions amongst each other. Ensuring that our front liners feel valued always, will naturally lead to our customers getting the necessary care in all ways.

YANG FAIRUZ ABDUL AZIZ

Head of Community Pharmacy

Corporate Values : *internal*

Academic Achievement Awards

Pharmaniaga organised the Academic Achievement Awards to celebrate its employees' children who achieved excellent results in the UPSR, PSRA, PT3, SPM and STPM examinations for the 2015 academic year. Two academic icons, Ihsan Sabri bin Rosli, who graduated from Universiti Teknologi Mara and received the Pharmaniaga Award 2015 and Mohd Najib bin Mustafa who graduated from Cyberjaya University College of Medical Sciences and received the Pharmaniaga Book Prize Award 2015 and 2016, were invited to share some key examination strategies and tips with the children.

Pharmaniaga acquired Bio-Collagen Technologies Sdn Bhd

Pharmaniaga acquired Bio-Collagen Technologies Sdn Bhd, a sole manufacturer of collagen-based medical devices for wound care management in Malaysia. This acquisition will provide Pharmaniaga with the competitive edge for this market segment.

Pharmaniaga organised flea markets for Bukit Raja employees

Pharmaniaga's Human Capital Management Team provided an avenue for the employees to open booths and sell their preloved items apparels, sports gears, F&B and others.

RoyalePharma opened its seventh outlet at Vista Alam, Shah Alam

Our community pharmacy chain under the brand of RoyalePharma opened its seventh outlet at Vista Alam, Shah Alam. This community pharmacy aims at accommodating the needs of communities within the outlet's vicinity.

Pharmaniaga promotes a healthy & balanced lifestyle

As one of the efforts in promoting a healthy & balanced lifestyle, Pharmaniaga manufacturing team organised an inaugural Sports Day event at Padang Semarak, Taman Wetland, Putrajaya. A total of 300 employees participated in various telematch activities during the event.

Zoo Volunteer Programme

Pharmaniaga contributed RM5,000 to Taiping Zoo during its "Zoo Volunteer" programme which aimed at creating awareness on wildlife conservation amongst the employees. Through this programme, Pharmaniaga adopted Lar Gibbon (white-handed Gibbon) for one year at the zoo.

Sg. Buloh Hospital Charity Ride

Pharmaniaga employees participated in the Sungai Buloh Hospital Charity Ride aimed at raising funds to purchase medical devices for its poor patients. We donated three wheelchairs to the hospital.

Corporate Values : *external*

Bursa Bull Charge Run 2016

For the third consecutive year, Pharmaniaga participated in the Bursa Bull Charge Run. A total of 2,200 runners from 217 organisations took part in this event. YBhg Dato' Farshila Emran and other employees of Pharmaniaga gave their support by joining the run. This run was also a fund raising event for charity bodies.

PUSPANITA Run

Pharmaniaga through Sports and Recreational Club participated in a charity run organised by PUSPANITA of Ministry of Health at Taman Wetland, Putrajaya. The event was flagged off by YBhg Datin Seri Dr. Umarani Subramaniam, the wife of Minister of Health, YBhg Dato' Seri Dr. S. Subramaniam.

Skuad Operasi Sihat 1Malaysia (SOS1M)

Pharmaniaga continues its Corporate Responsibility initiatives by mobilising its SOS1M team at various locations throughout Malaysia. SOS1M aims at creating awareness on healthy lifestyles for the public. In 2016, we have conducted 35 missions and more than 5,000 people have benefitted from the activities.

BHPetrol Orange Run

A total of 126 runners from Pharmaniaga participated in Orange Run organised by BHP Petrol. This event aimed at creating awareness on healthy living lifestyles amongst the public. Pharmaniaga also mobilised its SOS1M team to provide participants with free basic health screening at the event.

Merdeka Parade #SehatiSejiwa

Pharmaniaga participated in the Merdeka celebration by joining the marching parade at Dataran Merdeka, Kuala Lumpur. It was heartening to witness the employees proudly demonstrating their patriotic spirit of #SehatiSejiwa.

Contribution to Tabung Pahlawan

Pharmaniaga contributed RM50,000 to Tabung Pahlawan as an appreciation of our soldiers bravery. The cheque was presented by our Director of Logistics & Distribution, Encik Abdul Malik Mohamed to YBhg. Datin Seri Rosmah Mansor, the wife of Prime Minister.

Hari Raya Contribution for Angkatan Tentera Malaysia

In conjunction with Hari Raya Aidilfitri Celebration, Pharmaniaga donated RM100,000 to the Angkatan Tentera Malaysia. Our Managing Director, YBhg Dato' Farshila Emran presented the cheque to YB Dato' Seri Hishammuddin Tun Hussein, Minister of Defence during the ceremony.

Pharmaniaga lent support to Hospital Sultanah Aminah, Johor Bahru

During the unfortunate fire incidents at Hopital Sultanah Aminah, Johor Bahru, Pharmaniaga provided support by supplying food and drinks to hundreds of volunteers and rescue personnel for two days.

Iftar with orphans and underprivileged

Pharmaniaga organised an iftar event with orphans and underprivileged children from Pusat Jagaan Nur Barakah and Pusat Jagaan Amal Asyura. The children were treated to sumptuous dishes, gifts and *duit raya*.

Corporate Values : *external*

Pharmaniaga sponsors medical supplies for Haemophilia A patient

In collaboration with Hospital Ampang, Pharmaniaga donated a six-month medical supply to Yahia Bajbouj, a Syrian refugee who is suffering from Haemophilia A.

PT Errita Pharma's Hari Raya Celebration

In conjunction with Hari Raya Aidilfitri, PT Errita Pharma in Bandung, Indonesia gave away Hari Raya gifts to a total of 50 orphans. This corporate responsibility initiative was organised in collaboration with the local community.

Blood Donation Drive at PT Millennium Pharmacon International TBK (PT MPI) branch in Bandung

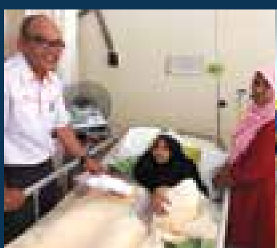
PT MPI, Pharmaniaga's subsidiary in Indonesia joined forces with Palang Merah Indonesia in organising a Blood Donation Drive in Bandung. The event was participated by approximately 40 donors from our Indonesia employees and the principals' medical representatives.

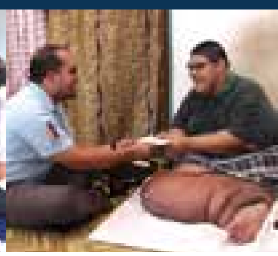
Pharmaniaga treated 100 orphans to KidZania Kuala Lumpur

Pharmaniaga treated 100 orphans from Pertubuhan Kebajikan Ehsan Ash Shakur to KidZania Kuala Lumpur. The orphans had a great and an enjoyable time as well as educational activities during the trip.

Pharmaniaga celebrated Hari Raya Aidil Adha with the underprivileged

Pharmaniaga celebrated Hari Raya Aidil Adha with the orphans from Rumah Anak Yatim Hembusan Kasturi and Rumah Anak Yatim Al-Khairiah. The employees contributed seven cows for *Ibadah Qurban*.





Helping hands for the needy

Pharmaniaga provided assistance to a number of underprivileged and unfortunate individuals who suffered from severe difficulties and hardships due to poverty and serious illnesses.

Back-to-School Programme

School uniforms and supplies were distributed to 40 children of Rumah Kanak-Kanak Tengku Ampuan Afzan, Raub, Pahang. The back-to-school programme aimed at bringing joy and excitement for the children.

Sustainability Report

"At Pharmaniaga, while sustainability is ingrained in our business philosophy, we always strive to do more in order to positively impact our patients, consumers, employees, communities as well as our shareholders"

As the largest local integrated healthcare company, we believe in doing business with a conscience, as we firmly believe that we can only sustain success if it is attained responsibly. To this end, we have executed multiple sustainability initiatives throughout the year.

This inagural Sustainability Report focuses on the collective sustainability efforts undertaken by our key business units, excluding overseas operations.

ECONOMIC

We uphold the belief that economic impact from our success in the pharmaceutica l sector should transcend far beyond its direct impact to our bottom-line. We are committed to ensure that our undertakings have a positive multiplier effect on society.

Nurturing a business ecosystem

We are able to offer significant economic opportunities not only to our workforce but also to an entire extended ecosystem of businesses and communities that benefit from our operations. These communities and businesses are able to grow and become engines of social and economic development in their own right as a result of our growth.

Our vendors are instrumental to our success, providing us with the goods and services necessary for us to operate and serve our customers. We have built strong partnerships with our current 300 vendors. From this pool of vendors, we are developing and nurturing 18 vendors under the Bumiputera Vendor Development Programme, which is also part of our obligation under the Concession Agreement (CA). This programme aims to assist Bumiputera manufacturers and strengthen their standards and capabilities, to enable them to compete in international markets.

The Group's supports for these vendors has resulted in tangible and positive spillover benefits for the local community, as they are key drivers of growth and job creation for the domestic economy. Our support goes beyond providing vendors with sales; our focus is on empowering them with the tools necessary to spur their capabilities.

Over the past years, we carried out capacity-building training sessions for our vendors. During these structured sessions, vendors were trained on a variety of topics relevant to the industry. We were also able to provide them with the opportunities to train with several government agencies. In addition, we organised events to bridge them with several financial institutions that provided assistance where needed.

Understanding the importance of exposure for the growth of vendors, we provided them with the opportunity to participate in multiple exhibitions throughout the year. This improved their confidence and allowed them to expand their working network with relevant entities.

We are committed to applying our sustainability principles in our procurement process by prioritising goods and services that are in compliance with our exacting sustainability standards. In this regard, we not only monitor the quality of the products and services rendered, but also analyse the practices of our vendors.

In upholding our stringent sustainability standards, we undertook a quarterly Vendor Excellence Monitoring Programme throughout the year where we monitored and measured the performance of our vendors in several key areas, including quality standards (through product complaints and recall) and average delivery time. We also conducted a total of 14 site visits in 2016, in collaboration with the Ministry of Health (MOH), to ensure our vendors fulfilled the necessary requirements as well as to asses any non-conformity or complaints reported.

Through these initiatives, we were able to determine areas for improvement while observing the progress and successes achieved.

Creating future entrepreneurs

Beyond providing employment opportunities, we are focused on empowering our pharmacists who manage all seven RoyalePharma Pharmacy outlets. They are groomed for entrepreneurship through our Bumiputera Pharmacy Development Programme. This initiative also reaches out to existing independent Bumiputera pharmacies, offering them the opportunity to expand their business network.

Furthermore, the programme expands the role of a pharmacist beyond the traditional dispensing function that looks at patient-centred care such as medication management as well as health and wellness education. Moreover, in line with the expanding role of the pharmacists of today, they are trained on managing people, inventory, expenses, improving quality of service and providing personalised customer service.

SEVEN

ROYALEPHARMA PHARMACY OUTLETS

Sustainability Report

IDENTIFIED
>250
PRODUCTS
TO BE DEVELOPED AS GENERIC MEDICINES

66
PRODUCTS
WHICH HAVE BEEN GRANTED BIOEQUIVALENT STATUS

Our RoyalePharma Alliance Programme has expanded to comprise 35 independent pharmacies across Malaysia. These independent pharmacies have keen insights into the needs of their respective markets, hence the pharmacists have a say in product selection, pricing and sales strategy. Alliance members have access to a wider range of products with greater economies of scale, as well as the opportunity for a host of other benefits including competitive credit terms, profit sharing and equitable trade terms.

Championing accessible and affordable healthcare

We are deeply committed to ensuring that our medicines are affordable and accessible while ensuring product safety, quality and efficacy.

Globally, our healthcare systems are faced with even greater demand from an ageing population. We at Pharmaniaga are conscious of the fact that generic medicines help maintain affordable prices and ensure that quality healthcare is not an unattainable ideal, especially for the underprivileged. The generic medicine market is expected to grow further over the next few years as more and more brand name medicines come off patent.

We have identified over 250 products to be developed as generic medicines in the next 10 years for various therapeutic segments such as cardiovascular, central nervous system, anti-infective, anti-diabetics, gastro-intestinal, respiratory and others. These potential products are currently at various stages of product development, scheduled to be introduced to the market immediately upon the expiry of their patents. Our efforts in developing high quality generic medicines are also in line with the Malaysian Government's National Drug Policy (DUNAS); which is reviewed and updated periodically by MOH.

At present, we have a total of 66 products which have been granted bioequivalent status, in line with the standards and requirements established by the Drug Control Authority of MOH, Malaysia. These products have been approved as fully bioequivalent to the respective innovator products and are clinically interchangeable.

Furthermore, in order to achieve our affordable healthcare goals, we look into improving the sustainability of our products through life cycle management as well as through collaborations with internal and external stakeholders. We strive to ensure continuous compliance to the highest regulatory standards, exceeding the stipulated requirements.

Leading the way with innovation

Research and development (R&D) is a vital catalyst of growth for the Group. Towards this end, our phytomedicine projects, namely Kacip Fatimah and Patawali, allow us to contribute to the advancement of herbal biotechnology in Malaysia, in support of the Government's objectives to develop high value herbal products. Reaching the commercialisation stage for these two projects, will lead to other economic opportunities that could be leverage on.

We support our Government's initiative to control the increasing number of diabetic patients in Malaysia, thus Pharmaniaga will commercially launch Stevia, a natural sugar based sweetener which is low in calories. This is also part of our corporate responsibility activities.

In enhancing our drive for innovation, we successfully completed the establishment of a lyophilised manufacturing facility. The manufacturing plant, the first of its kind in the country enables us to produce high value freeze dried pharmaceutical products. In fact, showcasing our expertise in pharmaceutical manufacturing technology, the Group is the first generic manufacturer in Malaysia to produce these high value products, ahead of international generic players in the market. This allows us to offer affordable product pricing as well.

In 2016, we acquired a new manufacturing facility, a bionexus company, specialising in natural collagen-based wound care products, primarily for burn patients.

Sustainability Report

ENVIRONMENTAL

Being a responsible pharmaceutical company, we strongly emphasise on efficient waste management systems at our plants as we care for the environment and the sustainability of our business. Apart from the establishment of an environmental policy that demonstrates our commitment to protect the environment, the Group has initiated several activities such as the Recycling Packaging Material Programme, Environment Monitoring and Waste Management amongst others.

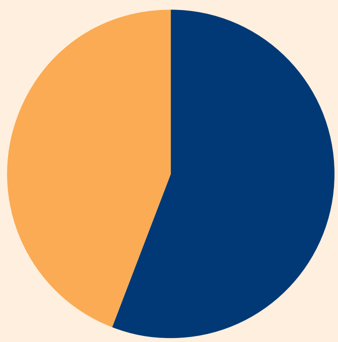
Reducing environmental impact

Non-renewable resources have become increasingly more difficult to obtain. As such, we need to ensure that we utilise our materials in a responsible manner. As part of Pharmaniaga's waste management policy and commitment to minimise our impact on the environment, we have implemented the Reduce, Reuse and Recycle (3R) programme across all our subsidiaries.

Throughout the year, we tracked and analysed waste data from all our facilities to assess our progress in relation to our waste-reduction goals based on the 3R principles. All non-hazardous waste, which essentially comprises of discards from our manufacturing, distribution and administrative facilities such as packaging materials, pallets, paper, metal, plastic, carton and drums are either reused when possible or recycled. However, all of our hazardous scheduled waste materials either solid or liquid are collected and disposed through Kualiti Alam according to the environmental regulatory guidelines.

These continuous activities have enabled us to successfully reduce the scheduled waste generated in 2016 compared with 2015.

SCHEDULED WASTE GENERATED (KG)



The generation of scheduled waste has been reduced from 168,308 in 2015 to 133,266 in 2016

Across all sites, we practice recycling of paper, carton and plastic. We also reuse other materials such as pallets and plastic drums. Among other initiatives, our logistics and distribution team is currently utilising recyclable and environmentally friendly "air pouch" packaging material to reduce the usage of plastic wrappers. Another recycling example at our manufacturing facility is the use of recycled water from the condensate and discharge from the Water For Injection Distillation Unit at our small volume injectable plant. The water is collected and used for the cooling of a Heating Ventilation And Conditioning (HVAC) system.

Safeguarding precious resources

In the past year, we have initiated several measures to help ensure that we utilise our resources as efficiently as possible. These measures include the use of energy efficient lighting, the installation of new equipment with energy saving features for our manufacturing facilities and the implementation of green technology. In addition, we looked into ways to further conserve energy by limiting the use of heating, ventilation and air conditioning in non-critical areas.

100%
IMPROVEMENT
OF LIGHT INTENSITY (LUX)

In 2016 alone, several initiatives were implemented with the utilisation of energy saving bulbs or Light-Emitting Diode (LED) at our production and logistics warehouses. We have achieved 100% improvement of the light intensity. Our plants took an additional step by installing a new high efficiency chiller with smart programming energy saving features to further conserve the energy utilisation at our sites.

All of our manufacturing facilities are in full compliance with the Environmental Quality (Clean Air) Regulations 2014. Our gensets, boilers and chimneys are all qualified and annually certified by the Department of Environment (DOE) Malaysia. The air emissions from these units are continuously monitored by our competent personnel at each manufacturing site. We also ensure that gas emissions from our internal and external transporters such as trucks and trailers are certified by the Malaysian Computerised Vehicle Inspection Company and that gas emissions are well within the regulatory limits.

As a result of our efforts, the Group has received several certifications demonstrating our strict compliance with global standards. This includes fulfilling the international Pharmaceutical Inspection Co-operation Scheme (PIC/S) requirements for Good Manufacturing Practice (GMP) and Good Distribution Practice (GDP). Our Quality Management System, Environment Management System and Occupational Health and Safety practices are certified to ISO 9001 standards, ISO 14001 standards and OHSAS 18001 standards respectively, while our Quality Control Laboratories are ISO/IEC 17025 accredited.

Sustainability Report

SOCIAL

Whether it is our employees, the communities we operate within or the youth of our nation, we are always actively pursuing ways to fulfil our social responsibilities as a trusted leader in the healthcare industry.

Our people

We firmly believe that our greatest asset at Pharmaniaga is our human capital. As such, we strive to fully prepare each employee for the healthcare market's ever-changing environment.

We are proud of our almost 2,000 strong workforce who are driven by a sense of purpose and with a strong conviction in our philosophy, *Passion for Patients*. Our organisational culture is driven by the values of equal opportunity, dignity and respect.

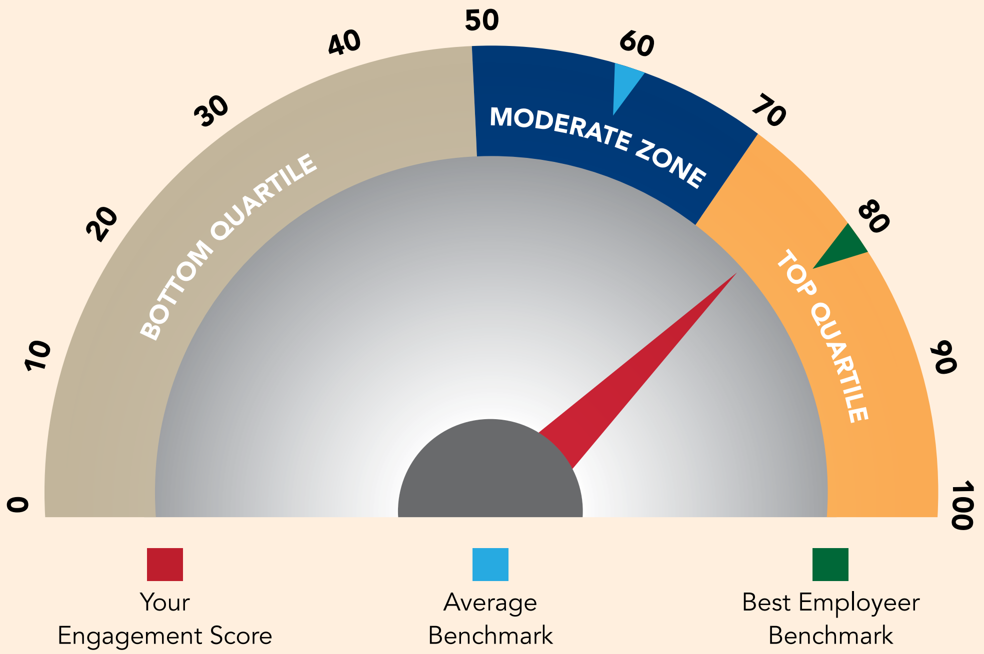
60%
OF OUR SENIOR MANAGEMENT TEAM ARE WOMEN

At Pharmaniaga, we have a balanced workforce between men and women. Meanwhile, 60% of our senior management team are women. This is in line with the Government's plan to increase the participation of women in the top management level to at least 30% and Pharmaniaga is proud to have achieved and exceeded the target. We also provide career opportunities for those who are physically challenged.

As part of our efforts to ensure the sustainability of our workforce and to drive a high-performance work culture, we offer a wide range of learning and development opportunities. Apart from certification trainings, we emphasise on the importance of continuous learning for our employees. We also provide the tools and techniques necessary for them to be effective leaders.

Throughout the year, we conducted several in-house and external training sessions that focused on technical and soft skills. In total our employees completed more than 98,000 hours of training, amounting to an average of 48 hours per employee. Through these programmes, our employees succeeded in bridging technical and leadership competency gaps and are able to deliver improved results.

Boustead Holdings Berhad Employee Engagement Survey (EES) 2016



The overall Employee Engagement Score for Pharmaniaga is 76%. The Employee Engagement Score places Pharmaniaga in the Top Quartile.

	Responses	Engagement Score	Range
Pharmaniaga	1,833	76%	Top Quartile
i. Pharmaceutical companies in Asia Pacific 2015-2016		67%	Moderate Zone
ii. Pharmaceutical companies in Malaysia 2014-2016		58%	Moderate Zone

Pharmaniaga's engagement score of 76% sits on the top quartile of the Employee Engagement Meter. Pharmaniaga's engagement score was 9% higher than the Asia Pacific norms/average of 67%; and was 18% higher than the national norms/average engagement score of 58%. The 76% engage score means that the level of engagement between staff and employer is high.

At Pharmaniaga we also promote healthy lifestyles, work life balance and provide additional benefits for employees. We have conducted various initiatives throughout the years including The Biggest Loser Competition, Quit Smoking, Blood Donation, Birthday Leave, sports competitions, religious activities, programme with orphanages, Meal Subsidy, RoyalePharma Voucher and Tuition Subsidy for employees' children.

As a follow-through from our successful Do It Right campaign which promoted a corporate culture centred, we launched our Do It Right First Time (DIRFT) campaign on the core themes which are:

- Customer Focus
- Teamwork & Integrity
- Continual Improvement

DIRFT is a quality management concept, focusing on improving product quality, strengthening processes across operations and encouraging employees to take ownership of quality outcomes.

Sustainability Report

160

UNDERGRADUATE STUDENTS FROM VARIOUS UNIVERSITIES PARTICIPATE IN INTERNSHIP PROGRAMME

Investing in our future

The importance of investing in initiatives that improve the life trajectories of youths should not be underestimated. This is something we at Pharmaniaga strongly believe in.

We support the Government in building up a talent pipeline by providing training for Provisional Registered Pharmacists (PRP). In fact, Pharmaniaga is one of the few companies in Malaysia approved by the Pharmacy Board Malaysia to recruit PRP. As part of our efforts to expose young pharmacy students to the immense career possibilities ahead for them and to assist them in making well-informed choices, we also participated in multiple career talks and fairs throughout the year locally and internationally.

On-the-job training goes a long way to boost the employability of graduates through exposure to various real-world scenarios. Under Skim Latihan 1Malaysia (SL1M), we have provided hands-on training for more than 50 fresh graduates.

Besides that, a total of more than 160 undergraduate students from various universities have had the opportunity to participate in our internship placement programme to gain valuable exposure to the workplace.

It is critical that we motivate exceptional students to do their best in academia. In recognition of outstanding academic achievements in the fields of pharmacy and medical sciences in local universities, we gave out RM150,000 in sponsorship through our Convocation Awards, Book Prize Awards, and other educational sponsorships.

During the year, close to 100 children of staff members who attained outstanding results in their UPSR, PSRA, PT3 and SPM examinations were honoured during our Excellent Academic Achievement Award ceremony. For the second year running, the Group organised Motivational Seminar that provided examination tips and strategies to 50 children of the employees who were sitting for national examinations.

THE GROUP EXECUTED **35 PROGRAMMES** THAT HAVE BENEFITTED **OVER 5,000** PARTICIPANTS IN 2016

Community engagement

As one of the leading Government-Linked Companies (GLC) in Malaysia, we strive to maximise our social inclusiveness with the people throughout the nation. We believe that our business remains viable only when we can provide and contribute tangible and enduring benefits to our communities. This will ultimately brings social progress and lead to an improvement in the quality of life for our future generations.

Adding to the continuity of our efforts, we are proud to share that we have mobilised our Skuad Operasi Sihat 1Malaysia (SOS1M) which is part of the Boustead Group's corporate responsibility initiatives, to various rural and suburban locations in Malaysia. SOS1M is our signature programme which aims to promote healthy lifestyles by providing complementary basic health checks to the communities. The Group executed a total of 35 programmes that have benefitted over 5,000 participants in 2016.

Along with that, we have also contributed approximately RM2 million for charitable investments in a diverse range of community projects for various beneficiaries including non-governmental organisations, underprivileged individuals, orphanages and schools. As a responsible corporate citizen, we will always outline various programmes and initiatives to support better quality of life for all people throughout the nation.

Survey Ratings for 2016 Dialogues

98%

'GOOD'
&
'EXCELLENT'

Stakeholder engagement

We are committed to maintaining the highest levels of service. Over the years, we have engaged with key stakeholders through dialogues and meetings where we shared information, discussed operational issues, performances and collaborated towards common goals. We received an overall rating of 'Good' and 'Excellent' from 98% of our respondent during the dialogue sessions.

Through our stakeholder engagement particularly with MOH as well as healthcare providers, we are able to do our part in improving the healthcare system to benefit our fellow Malaysians.

As part of our efforts to fully support the Government, we have implemented the Pharmacy Information System (PhIS), an integrated system created to meet the needs of healthcare professionals at government facilities. PhIS has redesigned pharmacy and healthcare delivery system by tracking the upstream and downstream supply and demand processes in hospitals and clinics. We have successfully implemented PhIS at over 1,100 facilities.

In addition to increasing efficiency and improving patient experience, PhIS is also able to improve patient safety through the elimination of medication error, improve inventory management to reduce overstocking and wastage, allow patients to specify their preferred medicine collection location as well as provide almost real time information to all users.

As a leader in the sector, the Group is an active member of several industry associations. This includes the Malaysian Organisation of Pharmaceutical Industries, the International Society of Pharmaceutical Engineering, the Federation of Malaysian Manufacturers and the Contact Centre Association of Malaysia, among others.

Cultivating a safe workplace culture

The welfare of our people is paramount to the Group. As such, cultivating a culture of safety first in the workplace is a key priority.

We have several initiatives in place to ensure that our workforce adheres to best practices for occupational safety and health. This includes training activities throughout our operations as well as various awareness programmes.

In addition, we have monitoring systems in place to ensure full compliance. As a result of this vigilance, we have been able to maintain a relatively low rate of workplace incidents over the past years.

We prioritise the wellbeing of our people by promoting a healthy lifestyle and behaviours. As part of our DIRFT campaign, we raised awareness on Safety, Health, Environment & Quality through multiple initiatives conducted during the year including talks on ergonomics at the workplace, fire safety, eye checks as well as on pollution and environmental conservation.

During the year, our Sports Club organised sporting and recreational activities to encourage healthy living. This also inculcates a sense of belonging and strengthen the bond amongst our employees.

In an increasingly competitive marketplace, Pharmaniaga is proud to be awarded the HR Asia Best Companies to Work for in Asia 2016 and Malaysia's 100 Leading Graduate Employers Award 2016 (Pharmaceutical Sector) for three consecutive years. Adding to our list of accomplishments, we have also clinched the Malaysian Institute of Human Resources Management's Silver Award (Employer of Choice) for the first time.

Statement on Corporate Governance

The Board of Directors (the Board) strongly support the principles of corporate governance as embodied in the Malaysian Code on Corporate Governance 2012 (MCCG 2012). Towards this end, the Board takes every step to ensure that the principles of corporate governance and best practices are observed and practiced throughout Pharmaniaga Berhad Group (the Group).

The Board is pleased to set out below the Group report on the compliance with MCCG 2012 throughout the financial year ended 31 December 2016.

THE GROUP'S GOVERNANCE OVERVIEW

In ensuring good corporate governance policies and practices are well implemented within the Group, the Board sets overall strategy for the Group and supervises executive management. The Board acts with due diligence and in the best interests of the Group and its shareholders.

The Board delegates certain authority to the Audit Committee, Sustainability Committee, Nomination Committee and Remuneration Committee, all of which operate within defined terms of reference to assist the Board in the execution of its duties and responsibilities. The terms of reference of the Committees have been incorporated into the Board Charter, which is available for reference at the Company's website at www.pharmaniaga.com.

ESTABLISH CLEAR ROLE AND RESPONSIBILITIES

Clear Function of the Board and Management

There is clear division of functions between the Board and the Management to ensure that no one individual or group dominates the decision-making process.

The Board has the overall responsibility for good corporate governance, strategic directions and investments of the Group. Whereas, the Management is responsible for the implementation of management goals in accordance with the direction of and delegation by Board.

Clear Role and Responsibilities of the Board

The principal functions and responsibilities of the Board in discharging its fiduciary duties and leadership roles:

- Protecting and enhancing long-term shareholder value;
- Acting in consistent with the Directors' Code of Ethics;
- Reviewing and adopting a strategic plans, policies and directions for the Company;

Statement on Corporate Governance

- Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate internal control and systems to manage these risks;
- Establish succession plan for senior management and ensure that all candidates appointed to senior management positions are of sufficient calibre;
- Developing and implementing an investor relations programme or shareholder communications policy for the Company; and
- Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board guided by the Board Charter, which is available for reference at the Company's website at www.pharmaniaga.com and which sets out the following responsibilities:

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

The Board Charter is reviewed from time to time to ensure its reliability with the Board's objectives, current laws and practices. The present Board Charter was approved in 2013.

For the financial year ended 31 December 2016, the Board amongst others, carried out the following responsibilities:

- Reviewed the Circular to Shareholders in relation to recurrent related party transactions and on the proposal to establish the share issuance scheme, which were tabled to shareholders for approval;
- Reviewed and approved the quarterly financial results and the annual audited financial statements for the year ended 31 December 2016 and the release for announcement to Bursa Malaysia Securities Berhad (Bursa Securities);
- Approved interim dividends which were declared on a quarterly basis;
- Reviewed and approved the strategic Annual Business Plan and Budget;
- Oversaw the execution and conduct of the Group's business; and
- Reviewed the Nomination Committee's assessment of the Board and Board Committees, for the year under review.

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

Promoting Sustainability

The Board believes that doing business in a sustainable manner goes hand-in-hand with corporate responsibility and both are integral to generate and sustain short and long term value for its stakeholders. Details of the corporate sustainability programmes of the Group are presented in the Sustainability Report on pages 70 to 80 of this Annual Report.

Senior Independent Non-Executive Director

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

Access to Information, Qualified Company Secretary and Independent Professional Advice

The Board supported by the Company Secretary, who is qualified to hold the position under Section 235(2) of the Companies Act, 2016. The Company Secretary of the Group plays a role in guiding the Board on issues and updates relating to corporate compliance with the relevant laws, rules, procedures and the governance best practices.

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

The Company Secretary also organises, attends Board meetings and ensures that all Directors receive timely, clear and concise information in advance prior to the scheduled meetings.

In furtherance of their duties, every member of the Board has full, unrestricted and timely access to senior management for information and clarification pertaining to the Company's business affairs. Further to this, the Board is also authorised to obtain independent professional advice on specific matters, if necessary, at the Company expense from time to time to enable the Board to discharge its function in the decision-making process.

Boardroom Diversity and Target

The Company is headed by a female Managing Director. Although the Board has not set a target for appointment of additional women directors, the Board acknowledges the importance of diversity in its association, including gender, ethnicity, age and endeavour to maintain the accurate constancy for effective functioning of the Board.

Statement on Corporate Governance

STRENGTHEN COMPOSITION

Composition of the Board Committees

The Board is satisfied of its current composition which comprises a balanced skill sets, competency and experience in carrying out its function and responsibilities effectively.

The Board is assisted by the Board Committees in discharging its duties. The Board Committees are the Audit Committee, Sustainability Committee, Nomination Committee and Remuneration Committee. The Committees keep the Board up-to-date with the decisions and discussions made and would report on the recommendations made to the Board during the Board Meetings.

Audit Committee

The function of the Audit Committee and the number of meetings held during the financial year as well as the attendance record of each member are set out in the Audit Committee Report on pages 103 to 106 of this Annual Report.

Sustainability Committee

The Sustainability Committee was established on 28 December 2016 with the purpose of monitoring the implementation of sustainability-related policies, measures and actions in achieving the Company's sustainability milestones and goals. The members of the Sustainability Committee are:

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

The first Sustainability Committee meeting was held on 21 February 2017.

Nomination Committee

The Board has established a Nomination Committee to assist the Board in ensuring the existence of the right mix of skills, knowledge, experience, qualities, gender, nationality and age that are relevant and contribute to the functioning of the Board. The members of this Committee comprises Non-Executive Directors, the majority of whom are independent. The Committee is chaired by an Independent Director who is not the Chairman of the Board. The information on the Committee's meeting and activities during the reporting period is as follows:

MEMBERS	MEETING ATTENDANCE
Mohd Suffian Haji Haron (Chairman)	1/1
Tan Sri Dato' Seri Lodin Wok Kamaruddin	1/1
Izzat Othman	1/1

The duties and functions of the Nomination Committee is in the Board Charter and is available for reference at the Company's website at www.pharmaniaga.com.

During the year, the Nomination Committee key activity was to discuss the assesment of the overall Board and its Committees' performance and effectiveness as a whole. The Committee also recommended for the Board to endorse the re-election and re-appointment of the relevant Directors at the forthcoming Annual General Meeting (AGM).

Remuneration Committee

The Remuneration Committee primary responsibilities is to structure and review the remuneration policy for executives of the Group, with the view to ensure that compensation and other benefits that enhances the Group's long term profitability and value.

The Remuneration Committee comprises three Non-Executive Directors with the majority of members are Independent Directors. Details of the Committee meetings in 2016 are as follows:

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

The salient terms of reference of the Remuneration Committee is under the Board Charter and is available for reference at the Company's website at www.pharmaniaga.com.

During the financial year ended 31 December 2016, the Remuneration Committee key activities were deliberating and recommending to the Board on the bonus and salary increment for Managing Director and the Heads of Divisions as well as the salary increment rate and bonus rate for the employees of the Group.

Directors' Remuneration

The remuneration package for Managing Director and Heads of Divisions are subject to the approval of the Board. Meanwhile the fees payable to Directors are subject to yearly approval by the shareholders at the Company's Annual General Meeting. There was no change in the remuneration policies and practices during the financial year.

The Non-Executive members of the Board and Board Committees are paid meeting allowance for each meeting they attended. The level of remuneration reflects the expertise, experience and level of responsibilities undertaken by particular Non-Executive members concerned.

Further details of Directors' remuneration are set out below and in Notes 7 and 8 to the Financial Statements on pages 165 to 167 of this Annual Report.

Statement on Corporate Governance

The appropriate Director's remuneration paid or payable or otherwise made available from the Company and its subsidiary companies for the financial year ended 31 December 2016 are presented in the table below:

a. Aggregate remuneration of Directors categorised into appropriate components:

i. Received from the Company

	Fees RM	Salaries RM	Bonus RM	Benefits-In-Kind RM	Other Emoluments* RM	Total RM
Executive Director	–	720,000	660,000	37,200	992,142	2,409,342
Non-Executive Directors	532,000	–	–	–	228,250	760,250

*Inclusive Option Plan and Long Term Incentive Plan expenses but excluding Option Plan expenses not yet exercised

ii. Received from the Group*

	Fees RM	Salaries RM	Bonus RM	Benefits-In-Kind RM	Other Emoluments RM	Total RM
Executive Director	30,000	–	–	–	3,000	33,000
Non-Executive Directors	114,000	–	–	–	60,300	174,300

*Excluding the Company

b) The remuneration paid to Directors of the Company for the financial year ended 31 December 2016, in bands of RM50,000 are tabulated as follows:

	No. of Directors	
Remuneration Band	Executive	Non-Executive
RM50,001 to RM100,000	–	1
RM100,001 to RM150,000	–	2
RM200,001 to RM250,000	–	1
RM350,001 to RM400,000	–	1
RM2,400,001 to RM2,450,000	1	–

*None of the Directors' remuneration falls within the RM150,001 to RM200,000, RM250,001 to RM350,000 and RM400,001 to RM2,400,000.

Currently there are no contracts of service between any Director and the Company or its subsidiaries, except for the Managing Director, Dato' Farshila Emran.

REINFORCE INDEPENDENCE

Assessment of Independent Directors

The Board recognises the importance of independence and objectivity in its decision-making process. The Nomination Committee has assessed the Independent Non-Executive Directors and is assured of the independence and objectivity of the said individual Board members. The Board as a whole is satisfied that independent Directors are professionals of high calibre, integrity and having in depth knowledge of the Group's business.

The Group also believes that the Directors should be independent and free from any business or other relationship that could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company.

For the financial year ended 31 December 2016, none of the Independent Non-Executive Directors were involved in the operation of the Company, participated in any business dealings or were in any other relationships with the Company (other than in situations permitted by the applicable regulations).

Tenure of Independent Directors

The Board takes cognisance of the recommendation of the MCCG 2012 on limiting the tenure of Independent Non-Executive Directors to nine years of service. The Board aims to balance the qualities of familiarity and maintaining a Director's independence in discharging their duties and responsibilities. Currently, the tenure of all Directors on the Board have not exceeded nine years.

Separation of Positions of the Chairman and the Managing Director

The positions of the Chairman of the Board and the Managing Director are held by different individuals and their roles are clearly defined in the Board Charter.

The Chairman, Tan Sri Dato' Seri Lodin Wok Kamaruddin, leads the Board with a keen focus on governance and compliance. He is responsible for ensuring the Board's effectiveness and conduct, promoting constructive and respectful relations between Directors, and between the Board and management. He also ensures a smooth, open and constructive dialogue between the Board and the Company's shareholders.

Dato' Farshila Emran, the Managing Director, is responsible for the Group's day-to-day operations and implements the Board's decisions. The Managing Director together with the management team manages the business of the Group in accordance with the strategic plans, instructions and directions of the Board.

Composition of the Board

The mix of Directors on the Board is broadly balanced to reflect the interest of major shareholders, management and minority shareholders. There are six members on the Board of Directors, comprising three Independent Non-Executive Directors and two Non-Independent Non-Executive Directors whom one of them is the Chairman. The Executive Director is the Managing Director.

Directorship in other Public Listed Company

For the financial year ended 31 December 2016, none of Pharmaniaga Berhad's Directors serve in more than five public listed companies. The Managing Director of the Company also does not serve as a director on other listed companies.

Statement on Corporate Governance

FOSTER COMMITMENT

Board Appointment and Time Commitments

The Directors are mindful of the importance of the time commitment and the expectation to attend to matters of the Group in general, including attendance at the meetings of the Board, Board Committees and other types of meeting. Meetings for the financial year are scheduled in advance for the Directors to plan accordingly.

The Board is aware of the importance of establishing formal and transparent procedures for the appointment of new Directors. The Nomination Committee is tasked to scrutinise the sourcing and nomination of suitable candidates with the right skills set, expertise and industry knowledge for appointment as Director in the Group.

As part of the good governance best practice, Directors will inform the Company Secretary immediately after accepting or resigning from the directorships in other companies.

- Re-appointment and Re-election of Directors

  The Articles of Association of Pharmaniaga Berhad states that at every AGM of the Company, one-third of the Directors for the time being, or if their number is not a multiple of three, then the number nearest to one-third shall retire from the office. The Articles also provide that every Director including the Managing Director shall be subject to retirement at least once in every three years. At the forthcoming AGM, Lieutenant General Dato' Seri Panglima Dr. Sulaiman Abdulah (Retired) will retire by rotation. Being eligible he has offered himself for re-election.

  At the 18th AGM of the Company held on 29 March 2016, Mohd Suffian bin Haji Haron and Daniel Ebinesan, both of whom are above the age of 70, were reappointed pursuant to Section 129 of the Companies Act, 1965 and their term of office will end at the conclusion of the 19th AGM. Both have offered themselves for re-appointment. Under the new Companies Act 2016 which came into force on 31 January 2017, there is no age limit for directors.

  The Board is satisfied that the Directors, who are required to stand for re-election and re-appointment at the upcoming AGM, continue to demonstrate the necessary commitment to be fully effective members of the Board.

- Board Meetings

During the financial year ended 31 December 2016, there were five Board meetings held and the attendance at the Board meetings held is as follows:

Directors	Status of Directorship	Meetings Attendance
Tan Sri Dato' Seri Lodin Wok Kamaruddin	Non-Independent Non-Executive Chairman	5/5
Dato' Farshila Emran	Managing Director	5/5
Daniel Ebinesan	Non-Independent Non-Executive Director	5/5
Mohd Suffian Haji Haron	Senior Independent Non-Executive Director	5/5
Izzat Othman	Independent Non-Executive Director	5/5
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	Independent Non-Executive Director	5/5

The above meetings were held either in Diamond Room, Ground Floor, No.7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor or at 28th Floor, Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur. Relevant management personnel were invited to Board and Board Committee meetings to report and apprise on operations and other developments within their respective purview.

The Directors are furnished with the formal agenda for each Board meeting, together with detailed Board papers and supporting documents in advance for their review prior to the meeting dates. This is to ensure they have ample time to review and, if necessary, acquire further details for deliberation at the meeting.

Directors' Training

In compliance with the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities), all members of the Board have attended the required training programmes during the year under review. The Directors from time-to-time will attend the conferences, briefings and workshops to keep abreast with current developments as well as new statutory and regulatory requirements.

Statement on Corporate Governance

Set out below are the training programmes attended by the Directors during the financial year 2016:

Director	Course Title	Date
Tan Sri Dato' Seri Lodin Wok Kamaruddin	SEACEN conference on Central Bank Cooperation and Mandates (The South East Asean Central Banks Research and Training Centre)	14 March 2016
	Global Emerging Markets Programme 2016 - Risk and Vulnerability of Global Markets: Reinforcing Resilience in Emerging Markets (Securities Commission)	15 March 2016
	Independent Directors Programme: "The Essence of Independence" (Bursa Malaysia and ICLIF)	28 March 2016
	Corporate Governance Breakfast Series with Directors "The Strategy, the Leadership, the Stakeholders and the Board" (Bursa Malaysia and Malaysian Directors Academy)	6 May 2016
	Half-Day Risk Management Workshop on Cyber Security and Fraud (Affin Holdings Berhad/IBM)	9 May 2016
	12th World Islamic Economic Forum - Decentralising Growth, Empowering Future Business (World Islamic Economic Forum Foundation)	2 August 2016
	Advocacy Sessions on Management Discussion & Analysis ("MD&A") for CEO and CFO of Listed Companies (Bursa Malaysia)	8 August 2016
	Half Day Talk On • Shariah Non-Compliance Risk And Its Impact to Islamic Banks • MFRS 9 - Financial Instruments And Key Audit Matters • Internal Capital Adequacy Assessment Process (ICAAP) (Affin Holdings Berhad)	26 September 2016
	Half Day Talk On: • Amendments to Listing Requirements of Bursa Malaysia Securities Berhad • Companies Act 2016 • Proposed Code of Corporate Governance 2016 • Policy Document on Corporate Governance by Bank Negara Malaysia (Affin Holdings Berhad)	10 November 2016
	Corporate Governance Breakfast Series with Directors: "The Cybersecurity Threat and How Board Should Mitigate the Risks" (Bursa Malaysia and Malaysian Directors Academy)	18 November 2016
Dato' Farshila Emran	Commonwealth Association for Public Administration and Management (CAPAM) Biennial Conference 2016	18-20 August 2016
	Sector-Specific Sustainability Reporting Workshop for Practitioners	13 October 2016
	Workshop On Sustainability Reporting : Mapping Your Business For Risk Management	20 October 2016
	Empowering Women Series – for Women Leaders in Senior Management	9 November 2016
	Expectations on PLCs and Directors in Disclosure and Compliance Requirements Under the Listing Requirements	24 November 2016

Director	Course Title	Date
Daniel Ebinesan	Sustainability Reporting Briefing (by EY)	8 April 2016
	CFO Summit 2016 (Asian Strategy & Leadership Institute)	2 June 2016
	Khazanah Megatrends Forum 2016 (Khazanah Research Institute)	26 & 27 September 2016
	EY 2017 C-Suite Budget and Tax Briefing (EY)	26 October 2016
	EY Half Day Talk on: • Amendments to Listing Requirements of Bursa Malaysia Securities Berhad • Companies Act 2016 • Proposed Code of Corporate Governance 2016 • Policy Document on Corporate Governance by Bank Negara Malaysia	10 November 2016
Mohd Suffian Hj Haron	National Issues on Directors Duties, Governance, Regulatory Updates & Current Issues 2016 organized by Federation of Public Listed Companies Berhad (FPLC)	26 & 27 January 2016
	FIDE FORUM: The New and Revised Auditor Reporting Standards: Implication to Financial Institutions	20 January 2016
	FIDE FORUM: An exclusive session for Directors: Subscribing FIDE Forum's Directors Register(DR) for your Board Candidates Selection	1 June 2016
	FIDE Forum: Effective Board Evaluation by Beverly Behan, LLC New York	25 July 2016
	LTAT: Seminar "Powertalk: What will distinguish the great Boards of Tomorrow" by Beverly Behan	25 July 2016
	FIDE Forum: Fintech	4 August 2016
	FIDE FORUM on: FIDE FORUM's DIRECTORS REGISTER- Identify the Right Board Taken	14 September 2016
	Half day talk on: • MFRS 9 – Financial Instruments • Key Audit Matters • Internal Capital Adequacy Assessment Process (ICAAP) • Shariah Non-Compliance Risk and its Impact to Islamic Banks	26 September 2016
	Role of the Chairman & Independent Directors' Seminar	27 September 2016
	Half Day Talk on: • Amendments to Listing Requirements of Bursa Malaysia Securities Berhad • Companies Act 2016 • Proposed Code of Corporate Governance 2016 • Policy Document on Corporate Governance by Bank Negara Malaysia	10 November 2016
	FIDE FORUM: Strategy to leverage Technology for Business Solutions on 14/11/2016	14 November 2016

Statement on Corporate Governance

Director	Course Title	Date
Izzat Othman	Sustainability Engagement Series for Directors/Chief Executive Officer of Listed Issuers	1 June 2016
	Malaysian Corporate Law and Case Law on Directors' Powers and Shareholders' Rights: Get the Balance Right	6 October 2016
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	National Seminar on Director Duties, Governance, Regulatory Updates & Current Issues 2016	26 & 27 January 2016
	CG Breakfast Series: The Strategy, the Leadership, the Stakeholders and the Board	6 May 2016
	Sustainability Engagement Series for Directors/Chief Executive Officer of Listed Issuers	2 June 2016
	CG Breakfast Series: Cybersecurity Threat and How Board Should Mitigate the Risks	18 November 2016

UPHOLD INTEGRITY IN FINANCIAL REPORTING BY THE COMPANY

Compliance of Financial Statements with Applicable Reporting Standards

The Board is responsible and take due care for presenting a fair, balanced and comprehensible assessment on the Group's operations, performance and prospect before releasing its quarterly and annual financial statements to shareholders and general public.

The Board recognises that an effective Audit Committee is necessary in ensuring the Company's financial statements are reliable source of financial information. Therefore, the Audit Committee is entrusted with responsibilities to review the quarterly financial results and annual financial statements focusing on compliance with applicable accounting standards and policies as well as practices and other legal requirements.

The Board also acknowledges that its responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets as required by the Code. Information on the Group's Internal Control is presented in the Statement on Risk Management and Internal Control pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia is set out on pages 95 to 102 of this Annual Report.

Independence of External Auditors

Through the Audit Committee, the Group has established a transparent and professional relationship with the External Auditors, Messrs. PricewaterhouseCoopers. The Audit Committee met the external auditors twice during the year under review without the present of Managing Director and management. This has allowed the Committee and external auditors to exchange independent views on matters that require the Committee's attention.

The Audit Committee reviews the re-appointment of external auditors and assess their performance on an annual basis. The review process covers the assessment of the independence of the external auditors and the evaluation of their performance, quality of work, non-audit services provided and timeliness of services deliverables.

RECOGNISE AND MANAGE RISKS

Sound Risk Management Framework

In recognising the importance of risk management and internal controls, the Company has established policies and framework for the oversight and management of material business risks and has adopted a formal Risk Management Policy. The Board provides strategic direction and formulates corporate policies to ensure the Group's resources and profitability are optimised. The Board also responsible for assessing the integrity of the Group's financial information and the adequacy and effectiveness of the Group's system of internal control and risk management processes.

The management is responsible to oversee and monitor the effectiveness of the risk management systems and is required to report to the Board. The Board has received, and will continue to receive periodic reports, summarising and assessing the risk impact and determining its risk mitigation and treatment measures.

Internal Audit Function

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

Further details of the activities of the Internal Audit function are set out in the Audit Committee Report.

ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure

The Group observes the Corporate Disclosure Guide and the Listing Requirements issued by Bursa Securities. The Group also acknowledges the timely and equal dissemination of material information to the shareholders, investors and public at large.

Pharmaniaga Berhad announces its quarterly and full year results within the stipulated time frame. The financial statements and press releases including material and price sensitive information are circulated and publicly released through BURSALINK and FRESH by Securities Commission of Malaysia, on a timely basis to ensure effective distribution of information concerning to the Group.

Leveraging on Information Technology for Effective Dissemination of Information

The Group maintains a corporate website at www.pharmaniaga.com which provides information relating among others, annual reports, quarterly financial reports, corporate information, announcements and Board Charter. Shareholders and public can also direct their queries to the Chief Financial Officer, Norai'ni Mohamed Ali (Tel: +603-3342 9999, e-mail: noraini.aliani@pharmaniaga.com) or to the Company Secretary, Tasneem Mohd Dahalan (Tel: +603-2141 9044, e-mail: tasneem.gsec@boustead.com.my) for Investor Relations related queries.

Statement on Corporate Governance

STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Encouraging Shareholder Participation at General Meetings

The Group recognises the need for an open and effective channel of communication with its shareholders and investors. The AGM is the main avenue for shareholders to express and communicate their concern on the Group business activities to the Board and senior management. Notice of the AGM is sent to the shareholders at least 21 days ahead of the AGM date to encourage the shareholders to attend the AGM.

The Company values the comment of its shareholders. Positive dialogue between the Board and shareholders are encouraged whereby at the AGM, shareholders are given the chance to raise questions on issues pertaining to the Company's financial and operational performances. The Chairman will provide ample time for shareholder to enquire and to express their concern. The Chairman as well as the Managing Director will response to the queries and will clarify the matter brought up during the AGM.

Poll Voting at General Meetings

In line with the revised Listing Requirements of Bursa Securities, all resolutions put to general meetings will be voted by poll. An independent scrutineer will be appointed to validate the votes cast at general meetings. The outcome of the resolutions will be announced to Bursa Securities on the same day of the meeting.

Communication and Engagement with Shareholders

In addition to shareholder involvement during the AGM, the Board also encourages other channel of communication with shareholders. The shareholder may convey their concerns relating to the Group to the Senior Independent Non-Executive Director, Encik Mohd Suffian bin Haji Haron at suffian.haron@pharmaniaga.com.

STATEMENT OF COMPLIANCE WITH THE REQUIREMENTS OF BURSA MALAYSIA IN RELATION TO APPLICATION OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012
(Pursuant to Paragraph 15.25 of the Main Market Listing Requirements of Bursa Securities)

The Board has complied with the Principles and Recommendations of the MCCG 2012 in the manner set out above, with exception to Recommendation 3.5 which mentions, that where the Chairman of the Board is not an Independent Director, the Board must comprise a majority of Independent Directors. Presently Company's Chairman is not an Independent Director, and there are three Independent Directors out of six Board members.

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

This statement has been approved by the Board of Pharmaniaga on 21 February 2017.

Statement on Risk Management and Internal Control

RESPONSIBILITY

THE BOARD OF DIRECTORS

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

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

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

THE MANAGEMENT

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

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

KEY ELEMENTS OF RISK MANAGEMENT FRAMEWORK

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

The management, through the Risk Management Committee (RMC), is entrusted with the responsibility of implementing and maintaining the Group's Risk Management Framework. The RMC is headed by the Managing Director and assisted by the Head of Divisions to drive the Risk Management of the Group. The Group's Risk Management Framework has the following key attributes:

- **Risk Governance and Strategy**

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

  i. Day-to-day risk management residing at the business units and divisions through practical controlling processes that require and encourage the management and employees to carry out their duties in an ethically compliant manner.

  ii. As outlined in the MCP, the Heads of Divisions are entrusted to:

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

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

- **Risk Analysis and Measurement**

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

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

- **Risk Reporting**

  The Group's Risk Management Framework provides for regular review and reporting. For the financial year 2016, the RMC met twice, on 15 July and 11 November 2016. At the meetings, the RMC assessed the overall risk profile and appetite of the Group, identified the significant risks, updated the Risk Register and prepared the action plans for mitigation. Risk assessment reports comprising the Action Plans on Significant Risk and Risk Register were tabled to the Board on 19 August and 21 November 2016. In addition, the reports were submitted to the Group Internal Auditors for an independent assessment on the adequacy and reliability of the risk management processes within the Group.

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

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

Audit Committee

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

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

Group Internal Audit

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

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

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

CONTROL SYSTEMS AND PRACTICES

The internal control system of the Group is supported by the control systems and practices which provide the discipline and structure, to

Statement on Risk Management and Internal Control

sustain organisational support of the management and employees. The control systems and practices that encompass organisation structure, governance activities and practices include:

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

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

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

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

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

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

- **Clearly documented standard operating procedures manuals**

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

  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 (formerly known as National Pharmaceutical Control Bureau), JAKIM and certain multinational companies' evaluation committees.

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

- **Code of Conduct**

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

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

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

  Based on strategies identified, the Annual Operating and Three-Year Business Plan together with Key Performance Indicators (KPIs) were drawn up and approved by the Board in November 2016. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also revised based on changes in the business and operating environments. Inputs from the Board in the Strategic Planning Sessions are used to develop the Annual Operating and Three-Year Business Plan.

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

- **Human Resources Policies and Procedures**

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

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

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

  Manpower planning exercise is conducted on an annual basis within the Group with the allocated budget. The planning exercise enables the management to determine

Statement on Risk Management and Internal Control

and to identify present and prospective needs of human capital resource and recruit the required number of suitable personnel. In addition, the management will also promote or transfer the employees as per the Group's requirements.

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

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

- **Tender Award System**

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

- **Insurance**

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

- **Credit Management**

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

MONITORING

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

- **Regular Monthly Reporting**

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

- **Performance Management**

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

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

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

- **Internal Audit Function**

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

COMMUNICATION

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

- **Assembly and session with the Management**

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

- **Whistleblower Policy**

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

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

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

  - Customer Focus;
  - Teamwork and Integrity; and
  - Continual Improvement

Statement on Risk Management and Internal Control

Throughout 2016, various activities have been organised for the employees at all branches in Malaysia in order to build and maintain the culture of compliance. The activities include:

i. compliance messages that were communicated routinely to all employees via emails and announcements;
ii. dialogue session with Regulatory Director to promote interactive discussion on compliance awareness;
iii. trainings to enhance the knowledge on internal control amongst staff;
iv. Environmental Conservation campaign: and
v. Health Living programme.

ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

ASSURANCE FROM MANAGEMENT

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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

This statement has been approved by the Board of Pharmaniaga on 21 February 2017.

Audit Committee Report

The Board of Directors of Pharmaniaga Berhad is pleased to present the report of the Audit Committee for the financial year 2016.

MEETINGS

During the financial year 2016, the Audit Committee convened four meetings. Attendance at all meetings met the requisite quorum in which the majority of the members present were Independent Non-Executive Directors. The Company Secretary is responsible for ensuring the meetings are held accordingly and duly minuted. The meetings were appropriately structured through the use of agendas, which were distributed to members with sufficient notification. The details of attendance of each member at the Audit Committee meetings held during the financial year are set out below:

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

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

TERMS OF REFERENCE

The information on the Terms of Reference of the Audit Committee is available on the Company's website.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year 2016, the Audit Committee in the discharge of its functions and duties had carried out the following activities to meet its responsibilities:

Financial Reporting

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

Audit Committee Report

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

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

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

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

Internal Audit

- Reviewed the Group Internal Audit's (GIA) annual audit plan for 2016 to ensure the adequacy of scope and comprehensiveness of the activities and coverage on auditable entities with significant high risks.

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

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

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

External Audit

- Reviewed with the external auditors:
  - their audit plan and scope of work for the year;
  - the results of the annual audit, their audit report for the financial year ended 31 December 2016 and management letter together with the management's response to the findings of the external auditors; and
  - the significant audit and accounting matters noted during the audit for the financial year ended 31 December 2016 in particular areas which involve significant accounting estimates and judgement:
    - i. impairment assessment of goodwill;
    - ii. impairment assessment of property, plant and equipment and intangible asset of the Group's small volume injectable plant;
    - iii. recognition of deferred tax assets by the Group's small volume injectable subsidiary;
    - iv. recoverability of cost of investment in a small volume injectable subsidiary; and
    - v. revision in useful life of intangible asset of Pharmaniaga Logistics Sdn. Bhd.

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

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

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

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

Related Party Transactions

- Reviewed the quarterly updates on the related party transactions entered into by Pharmaniaga Group and/or its group of companies, to ensure the transactions were at arm's length.
- Reviewed the Circular to Shareholders relating to shareholders' mandate for recurrent related party transactions of revenue or trading nature prior to recommending it for Board's approval.

Annual Reporting

- Reviewed and recommended the Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit Committee Report for the financial year ended 31 December 2016 and Circular to Shareholders on Recurrent Related Party Transactions to the Board for approval for disclosures in the Annual Report.

Risk Management

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

During the year, the Risk Assessment reports, comprising the Action Plans on Significant Risk and Risk Register were presented to the Audit Committee and also further escalated to the Board on 19 August and 21 November 2016.

INTERNAL AUDIT FUNCTION

The internal audit function of Pharmaniaga Group is carried out by Group Internal Audit (GIA) of Boustead Holdings Berhad. GIA function had operated and performed in accordance to the principles of the Internal Audit Charter that provides for its independence function. GIA function reports directly to the Audit Committee, and is independent of the activities it audits. The Company has an adequately resourced internal audit function to assist the Audit Committee and the Board in maintaining an effective system of internal control and overall governance practices within the Company and Group.

Mission

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

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

- Prepared the annual audit plans for approval by the Audit Committee;
- Performed risk-based audits based on the annual audit plan, including follow-up of matters from previous internal audit reports;
- Issued internal audit reports to the management on risk management, control and governance issues identified from the risk-based audits together with recommendations for improvements for these processes;
- Reported on a quarterly basis to the Audit Committee the achievement of the audit plan and status of resources of GIA;
- Reviewed the procedures relating to related party transactions; and

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

Scope and Coverage

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

During the year, GIA has completed and issued 12 internal audit reports based on approved annual audit plan and request from the management. The audit conducted in 2016 covered a wide range of operational areas within the Group. Among the key areas covered during the financial year are;

- Inventory Management
- Financial Management
- Sales and Marketing
- Procurement Management
- Retail Pharmacy
- Project Management
- Asset Management
- Office Administration
- Human Resource Management
- Statutory Compliance

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

Resources and Continuous Development

There are a total of 35 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 2016, 8 internal auditors carried out the audit in Pharmaniaga Group and the total costs incurred for GIA amounted to RM313,395 excluding goods and services tax (GST).

The GIA staff have the relevant qualifications required to perform the job and are encouraged to pursue Certified Internal Auditor examination. They are also provided with various trainings and courses relevant to their job to equip themselves with adequate knowledge and proficiency.

Statement of Directors' Responsibility for Preparation of Financial Statements

The financial statements of the Group and of the Company have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors take responsibility in ensuring that the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the results and the cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have:

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

The Directors are responsible to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and which enable them to ensure that the financial statements comply with the requirements of Companies Act, 1965.

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

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Directors' Report

The Directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit for the financial year	45,859	78,601
Attributable to:		
Owners of the parent	45,599	78,601
Non-controlling interests	260	-
	45,859	78,601

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 2016:

	Dividend Sen per Share	RM'000	Payment Date
First interim single tier dividend	4.0	10,355	28 June 2016
Second interim single tier dividend	5.0	12,969	20 September 2016
Third interim single tier dividend	4.0	10,375	15 December 2016
Fourth interim single tier dividend	3.0	7,781	17 March 2017
	16.0	41,480	

Directors' Report

DIVIDENDS (CONTINUED)

The fourth interim single tier dividend of 3.0 sen per share amounting to RM7,781,000 mentioned above in respect of the financial year ended 31 December 2016 will be paid on 17 March 2017 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and paid-up share capital from RM129,441,366 to RM129,688,566 as follows:

(a) through the issuance of 200,000 ordinary share of RM0.50 each pursuant to the exercise of the Option Plan at an exercise price of RM5.04 per share; and

(b) through the issuance of 294,400 ordinary shares of RM0.50 each pursuant to the Long Term Incentive Plan at no consideration.

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

SHARE SCHEME

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

<u>Option Plan</u>

The principal features of the Option Plan are as follows:

(a) Directors and selected Senior Management Officers ("Eligible Employees") can subscribe under the Option Plan for new ordinary share of RM0.50 each 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.

Directors' Report

SHARE SCHEME (CONTINUED)

Option Plan (continued)

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

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

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

As at 31 December 2016, particulars of the outstanding options granted under the Option Plan were as follows:

		Number of options over ordinary shares of RM0.50 each			
Date of grant	**Option price**	**At 1.1.2016**	**Granted**	**Exercised**	**At 31.12.2016**
13 May 2016	RM5.04	–	15,840,000	(200,000)	15,640,000

Long Term Incentive Plan

The principal features of the LTIP are as follows:

(a) Subject always to the eligibility criteria set out below, the Executive Director and Eligible Employees of the Group are awarded with new ordinary share of RM0.50 each 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.

(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) The Executive Director and Eligible Employees are awarded with new ordinary share of RM0.50 each 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.

Directors' Report

SHARE SCHEME (CONTINUED)

Long Term Incentive Plan (continued)

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

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

As at 31 December 2016, particulars of the shares granted under the LTIP were as follows:

	Number of ordinary shares of RM0.50 each				
Date of grant	At 1.1.2016	Granted	Vested	Lapsed	At 31.12.2016
13 May 2016	-	894,000	(294,400)	(18,000)	581,600

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

The Company was granted exemption by the Companies Commission of Malaysia from having to disclose the names of the persons who have been granted options to subscribe for less than 6,600 shares under the Option Plan. Details of the persons who were granted options to subscribe for more than 6,600 shares under the Option Plan during the financial year, other than Directors, are as follows:

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2016	Granted	Exercised	At 31.12.2016
Datin Shamsinar Haji Shaari	-	375,000	-	375,000
Sharifah Fauziyah Syed Mohthar	-	375,000	-	375,000
Mohamed Iqbal Abdul Rahman	-	350,000	-	350,000
Norai'ni Mohamed Ali	-	350,000	-	350,000
Abdul Malik Mohamed	-	300,000	-	300,000
Zulhazri Razali	-	290,000	-	290,000

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

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

SIGNIFICANT AND SUBSEQUENT EVENTS

Significant and subsequent events during the financial year are disclosed in Note 39 to the financial statements.

Directors' Report

DIRECTORS

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

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

DIRECTORS' BENEFITS

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

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

REMUNERATION COMMITTEE

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

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

DIRECTORS' INTERESTS IN SHARES

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

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	**Acquired**	**Sold**	**At 31.12.2016**
The Company				
Direct interest				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	12,500,148	-	-	12,500,148
Dato' Farshila Emran	87,000	42,000	-	129,000
Daniel Ebinesan	400,000	200,000	-	600,000

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	Acquired	Sold	At 31.12.2016
Immediate holding company				
Boustead Holdings Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	28,192,758	27,065,047*	(3,000,000)	52,257,805
Daniel Ebinesan	157,740	151,430*	-	309,170

** Increase pursuant to rights issue/bonus issue.*

	Number of ordinary shares of RM1.00 each			
	At 1.1.2016	Acquired	Sold	At 31.12.2016
Related corporations				
Boustead Heavy Industries Corporation Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	2,000,000	-	-	2,000,000
Daniel Ebinesan	20	-	-	20
Mohd Suffian Haji Haron	20,000	-	-	20,000
Boustead Petroleum Sdn. Bhd.				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	5,916,465	-	-	5,916,465
Boustead Plantations Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	31,381,600	-	(3,544,800)	27,836,800
Dato' Farshila Emran	450,000	-	-	450,000
Daniel Ebinesan	1,295,500	-	-	1,295,500
Mohd Suffian Haji Haron	30,000	-	-	30,000
Izzat Othman	250,000	-	-	250,000
Affin Holdings Berhad				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	1,051,328	-	-	1,051,328
Daniel Ebinesan	43,300	-	-	43,300

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

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

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2016	Granted	Exercised	At 31.12.2016
The Company				
Tan Sri Dato' Seri Lodin Wok Kamaruddin	-	3,800,000	-	3,800,000
Dato' Farshila Emran	-	2,000,000	-	2,000,000
Daniel Ebinesan	-	2,000,000	(200,000)	1,800,000
Mohd Suffian Haji Haron	-	2,000,000	-	2,000,000
Izzat Othman	-	2,000,000	-	2,000,000
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (Retired)	-	2,000,000	-	2,000,000

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

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	Granted	Vested	At 31.12.2016
The Company				
Dato' Farshila Emran	-	126,000	(42,000)	84,000

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

Before the income statements and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

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

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

Directors' Report

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

CURRENT ASSETS VALUATION (CONTINUED)

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

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

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

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGING CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

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

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

Directors' Report

HOLDING CORPORATIONS

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

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with a resolution dated 27 February 2017.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
CHAIRMAN

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

Statement by Directors

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

We, Tan Sri Dato' Seri Lodin Wok Kamaruddin and Dato' Farshila Emran, being two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 128 to 227 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2016 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out in Note 43 on page 228 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution dated 27 February 2017.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
CHAIRMAN

DATO' FARSHILA EMRAN
MANAGING DIRECTOR

Statutory Declaration

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

I, Norai'ni Mohamed Ali, being the officer primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 128 to 227 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

NORAI'NI MOHAMED ALI

Subscribed and solemnly declared by the abovenamed Norai'ni Mohamed Ali at Kuala Lumpur on 27 February 2017, before me.

COMMISSIONER FOR OATHS

Independent Auditors' Report

to the Members of Pharmaniaga Berhad (Incorporated in Malaysia) (Company No. 467709-M)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Pharmaniaga Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 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, 1965 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 2016 of the Group and of the Company, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 128 to 227.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Our audit approach

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

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.

Independent Auditors' Report

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 year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill	
Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 16 (Impairment tests for goodwill). The Group's goodwill of RM140.5 million as at 31 December 2016 were allocated to 4 cash-generating units ("CGUs"), namely, Trading and distribution and Manufacturing CGUs in Malaysia and Indonesia. Goodwill is subject to annual impairment testing. We focused on this area as the determination of recoverable amounts of the assets in these 4 CGUs based on value-in-use calculations by management involved a significant degree of judgement and assumptions on sales volume growth rate and margin.	Our procedures performed in relation to management's impairment assessment and testing included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Checked the key assumptions used by management, in particular, sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Checked the discount rate used by comparing the rate used to comparable industries; • Performed sensitivity analysis on sales volume growth rates, margins by product and discount rate to evaluate impact on the impairment assessment; and • Assessed the adequacy and reasonableness of the disclosures in the financial statements. Based on the procedures performed, we noted no significant exceptions.

Independent Auditors' Report

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 asset of the Group's small volume injectable plant	
Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 12 (Impairment assessment for property, plant and equipment and capitalised development costs included within intangible asset). The carrying values of property, plant and equipment ("PPE") and intangible asset of the Group's small volume injectable plant as at 31 December 2016 are RM140.9 million and RM6.7 million respectively. The intangible asset relates to capitalised development costs work-in-progress and subject to annual impairment testing. Management assessed the impairment of intangible asset together with the PPE as one cash generating unit ("CGU"). The recoverable amount of the CGU is determined based on value-in-use calculations. No impairment was required as the recoverable amount of the CGU was in excess of the carrying amount of the assets within the CGU. We focused on this area as the impairment assessment performed by management requires significant judgement as the timing and quantum of the cash flows are dependent on sales volume growth rate, margin and terminal value of the land.	We examined the impairment assessment prepared by the management and our procedures included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Evaluated the methodology and reasonableness of the key assumptions used by an independent external valuer in determining the terminal value of land; • Checked the key assumptions used by management in the value-in-use calculations, in particular, sales volume growth rate and margins by product comparing to business plans, historical results and market data; • Checked the discount rate used by comparing the rate used to comparable industries; • Performed sensitivity analysis on sales volume growth rates, margins by product and discount rate in order to assess the potential impact of a range of possible outcome on impairment assessment; and • Assessed the adequacy and reasonableness of the disclosures in the financial statements. Based on the above procedures performed, we noted no significant exceptions.

Independent Auditors' Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Recognition of deferred tax assets by the Group's small volume injectable subsidiary Refer to Note 2(t) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 31 (Deferred Taxation). As at 31 December 2016, the Group has deferred tax assets of RM9.4 million relating to the small volume injectable subsidiary. The deferred tax assets arose from unutilised tax losses and unabsorbed capital allowances. We focused on this area due to the continued losses recorded by the small volume injectable subsidiary and significant management judgement involved in determining the amount of deferred tax assets to be recognised based on the probability that future taxable profits will be available.	We evaluated management's assessment of the probability of utilisation of tax losses and capital allowances against future taxable profits, which have been used as the basis to recognise the deferred tax assets. Our procedures included the following: • Checked the key assumptions used in the future taxable profit projections, in particular, sales volume growth rate and margin by product comparing to business plans, historical results and market data; • Assessed the reliability of management's forecasted future taxable profits through the review of past trends of actual financial performances against previous forecasted results; and • Evaluated information available to support the progress made by management in improving the profitability of the business. Based on our procedures, we noted no significant exceptions.
Recoverability of cost of investment in a small volume injectable subsidiary Refer to Note 2(j) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 14 (Subsidiaries). As at 31 December 2016, the carrying value of the cost of investment in the small volume injectable subsidiary is RM75.0 million. The subsidiary recorded continued losses since the commencement of operations in 2011, which is an impairment indicator. An impairment assessment was performed by management. The recoverable amount of the investment is determined based on discounted future cash flows adjusted for tax and repayment of intercompany balances. No impairment was required as the recoverable amount was in excess of its carrying amount. We focused on this area as the recoverable amount of the investment is determined based on value-in-use method, which requires judgement on the part of management on the future financial performance of the subsidiary.	Our procedures in relation to management's impairment assessment included the following: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Checked the key assumptions used by management in the value-in-use calculations on sales volume growth rate and margin by product comparing to business plans, historical results and market data; • Performed sensitivity analysis on sales volume growth rates and discount rate to evaluate impact on the impairment assessment; and • Assessed the adequacy and reasonableness of the disclosures in the financial statements. Based on the above procedures performed, we did not note any significant exceptions.

Independent Auditors' Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Revision in useful life of intangible asset of Pharmaniaga Logistics Sdn Bhd	
Refer to Note 2(h)(iii) (Significant Accounting Policies), Note 3 (Critical Accounting Estimates and Judgements) and Note 16 (Intangible assets). As at 31 December 2016, the carrying value of the Group's rights to supply under the Concession Agreement with the Government of Malaysia (classified as intangible asset) amounted to RM172.5 million, which is amortised over the concession period. The remaining useful life of the intangible asset has been revised from 4 years to 14 years with effect from January 2016 in view of the ongoing negotiations to finalise the terms and conditions for the extension of the concession. The revision has been accounted for as a change in accounting estimate and as a result, the amortisation charge for the financial year was reduced by RM23.4 million. We focused on this area as the revision in useful life involves a significant degree of management judgement in determining the timing and period of the extension.	Our procedures in relation to management's assessment included the following: • Evaluated management's assessment of the factors indicating that Pharmaniaga Logistics Sdn Bhd will be able to meet the conditions set by the Ministry of Health and extend the Concession without significant costs; • Obtained documents which supports the Government of Malaysia's intention to extend the Concession from January 2016; • Assessed the reasonableness of the revised remaining useful life of the intangible assets; and • Assessed the adequacy of the disclosures in the financial statements. Based on the above procedures performed, we did not note any significant exceptions.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Managing Director's Review, Operations Review, Sustainability Report, Statement on Corporate Governance, Statement on Risk Management and Internal Control, Audit Committee Report, Directors' Report and other sections of the 2016 Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

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

Independent Auditors' Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements 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 the Company's internal control.

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

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

Independent Auditors' Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

Independent Auditors' Report

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 43 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

AZIZAN BIN ZAKARIA
(No. 2930/05/18 (J))
Chartered Accountant

Kuala Lumpur
27 February 2017

Income Statements

for the financial year ended 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	4	**2,189,022**	2,189,312	**105,076**	71,781
Cost of sales	5	**(1,845,775)**	(1,836,459)	**–**	–
Gross profit		**343,247**	352,853	**105,076**	71,781
Other income	7(b)	**1,312**	363	**222**	38
Administrative expenses		**(239,877)**	(226,398)	**(22,580)**	(16,709)
Finance costs	6	**(33,703)**	(15,146)	**(4,117)**	(3,468)
Interest income		**1,038**	1,050	**–**	400
Profit before zakat and taxation	7	**72,017**	112,722	**78,601**	52,042
Zakat		**(250)**	(700)	**–**	–
Taxation	9	**(25,908)**	(27,438)	**–**	–
Net profit for the financial year		**45,859**	84,584	**78,601**	52,042
Attributable to:					
Owners of the parent		**45,599**	84,044	**78,601**	52,042
Non-controlling interests		**260**	540	**–**	–
Net profit for the financial year		**45,859**	84,584	**78,601**	52,042
Earnings per share (sen):					
- Basic	10	**17.60**	32.46		
- Diluted	10	**17.54**	32.46		

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

Statements of
Comprehensive Income

for the financial year ended 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net profit for the financial year		**45,859**	84,584	**78,601**	52,042
Other comprehensive income, net of tax:					
Items that will be subsequently reclassified to profit or loss					
Foreign currency translation differences for foreign operations		**9,137**	14,185	**–**	–
Items that will not be reclassified to profit or loss					
Recognition of actuarial losses	32	**(74)**	(201)	**–**	–
Other comprehensive income, net of tax for the financial year		**9,063**	13,984	**–**	–
Total comprehensive income, net of tax for the financial year		**54,922**	98,568	**78,601**	52,042
Attributable to:					
Owners of the parent		**53,009**	93,506	**78,601**	52,042
Non-controlling interests		**1,913**	5,062	**–**	–
		54,922	98,568	**78,601**	52,042

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

Statements of Financial Position

as at 31 December 2016

	Note	Group		Company	
		2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
ASSETS					
Non-current assets					
Property, plant and equipment	12	**420,465**	406,184	**–**	–
Prepaid lease payments	13	**2,616**	2,628	**–**	–
Subsidiaries	14	**–**	–	**437,751**	432,837
Investment in an associate	15	**–**	–	**–**	–
Intangible assets	16	**342,796**	284,108	**–**	–
Trade receivables	18	**12,236**	9,587	**–**	–
Amounts due from subsidiaries	20	**–**	–	**139,046**	124,152
Deferred tax assets	31	**28,298**	24,261	**–**	–
		806,411	726,768	**576,797**	556,989
Current assets					
Inventories	17	**532,211**	539,896	**–**	–
Trade receivables	18	**161,276**	147,661	**–**	–
Other receivables	19	**95,013**	47,594	**8,668**	337
Amounts due from subsidiaries	20	**–**	–	**97,218**	47,242
Deposits, cash and bank balances	22	**70,456**	22,518	**377**	189
Tax recoverable		**17,743**	11,186	**–**	–
		876,699	768,855	**106,263**	47,768
TOTAL ASSETS		**1,683,110**	1,495,623	**683,060**	604,757

Statements of Financial Position
as at 31 December 2016

	Note	Group		Company	
		2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Company					
Share capital	28	**129,688**	129,441	**129,688**	129,441
Share premium		**14,266**	11,751	**14,266**	11,751
Exchange reserve		**15,319**	7,842	**–**	–
Share reserve	29	**5,821**	–	**4,521**	–
Retained earnings	30	**365,537**	380,375	**191,452**	164,672
		530,631	529,409	**339,927**	305,864
Non-controlling interests		**28,776**	30,585	**–**	–
Total equity		**559,407**	559,994	**339,927**	305,864
Non-current liabilities					
Other payables	24	**547**	–	**547**	–
Deferred income	26	**4,190**	–	**–**	–
Loans and borrowings	27	**248**	558	**–**	–
Deferred tax liabilities	31	**48,105**	33,419	**–**	–
Provision for defined benefit plan	32	**8,593**	7,501	**–**	–
		61,683	41,478	**547**	–

Statements of Financial Position
as at 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current liabilities					
Amounts due to subsidiaries	20	**–**	–	**209,019**	215,020
Amounts due to related companies	21	**853**	1,396	**–**	–
Trade payables	23	**378,116**	435,915	**–**	–
Other payables	24	**63,788**	51,193	**3,493**	3,865
Amount due to immediate holding company	25	**472**	186	**74**	8
Deferred income	26	**424**	196	**–**	–
Loans and borrowings	27	**616,664**	399,613	**130,000**	80,000
Current tax liabilities		**1,703**	5,652	**–**	–
		1,062,020	894,151	**342,586**	298,893
Total liabilities		**1,123,703**	935,629	**343,133**	298,893
TOTAL EQUITY AND LIABILITIES		**1,683,110**	1,495,623	**683,060**	604,757

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

Statements of Changes in Equity

for the financial year ended 31 December 2016

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

Statements of Changes in Equity
for the financial year ended 31 December 2016

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

Statements of Changes in Equity
for the financial year ended 31 December 2016

	Note	Share capital RM'000	Non-distributable Share premium RM'000	Non-distributable Share reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
Company						
At 1 January 2016		**129,441**	**11,751**	**–**	**164,672**	**305,864**
Total comprehensive income for the financial year		**–**	**–**	**–**	**78,601**	**78,601**
Transactions with owners:						
Issuance of new shares:	28					
– Option Plan		**100**	**1,014**	**(106)**	**–**	**1,008**
– Long Term Incentive Plan		**147**	**1,501**	**–**	**–**	**1,648**
Share options granted under Option Plan	29	**–**	**–**	**4,278**	**–**	**4,278**
Shares granted under Long Term Incentive Plan	29	**–**	**–**	**349**	**–**	**349**
Dividends	11	**–**	**–**	**–**	**(51,821)**	**(51,821)**
Total transactions with owners for the financial year		**247**	**2,515**	**4,521**	**(51,821)**	**(44,538)**
At 31 December 2016		**129,688**	**14,266**	**4,521**	**191,452**	**339,927**
At 1 January 2015		129,441	11,751	–	203,239	344,431
Total comprehensive income for the financial year		–	–	–	52,042	52,042
Transactions with owners:						
Dividends	11	–	–	–	(90,609)	(90,609)
Total transactions with owners for the financial year		–	–	–	(90,609)	(90,609)
At 31 December 2015		129,441	11,751	–	164,672	305,864

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

Statements of Cash Flows

for the financial year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**2,201,462**	2,170,373	**–**	–
Cash payments to suppliers and employees		**(2,108,947)**	(2,112,478)	**(23,106)**	(17,111)
Cash generated from/(used in) operations		**92,515**	57,895	**(23,106)**	(17,111)
Interest paid		**(31,856)**	(15,527)	**–**	–
Tax paid		**(25,958)**	(35,272)	**–**	–
Zakat paid		**(250)**	(700)	**–**	–
Interest received		**985**	923	**–**	–
Net cash generated from/(used in) operating activities		**35,436**	7,319	**(23,106)**	(17,111)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries (net of cash acquired)	14	**(14,921)**	–	**(2,953)**	–
Acquisition of a business	16	**–**	(1,400)	**–**	–
Advance to a corporate shareholder of a subsidiary		**(17,960)**	–	**–**	–
Proceeds from disposal of property, plant and equipment		**164**	240	**–**	–
Purchase of property, plant and equipment	12	**(43,639)**	(61,298)	**–**	–
Purchase of intangible assets	16	**(69,825)**	(56,387)	**–**	–
Gross advances to subsidiaries		**–**	–	**(58,342)**	(33,116)
Gross repayments from subsidiaries		**–**	–	**303**	41
Net cash used in investing activities		**(146,181)**	(118,845)	**(60,992)**	(33,075)

Statements of Cash Flows
for the financial year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Issuance of shares	28	**1,008**	–	**1,008**	–
Dividends paid to:					
– owners of the Company	11	**(51,821)**	(90,609)	**(51,821)**	(90,609)
– non-controlling interests of a subsidiary		**(338)**	–	**–**	–
Drawdown of short term borrowings		**1,192,035**	826,819	**85,000**	30,000
Interest paid		**–**	–	**(4,117)**	(3,468)
Repayment of short term borrowings		**(983,480)**	(635,364)	**(35,000)**	(15,000)
Gross advances received from subsidiaries		**–**	–	**190,921**	221,320
Gross repayments to subsidiaries		**–**	–	**(101,705)**	(92,430)
Net cash generated from financing activities		**157,404**	100,846	**84,286**	49,813
NET CHANGES IN CASH AND CASH EQUIVALENTS		**46,659**	(10,680)	**188**	(373)
Foreign exchange differences		**1,279**	1,216	**–**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**22,518**	31,982	**189**	562
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	22	**70,456**	22,518	**377**	189

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

Notes to the Financial Statements

31 December 2016

1. GENERAL INFORMATION

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

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

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

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

Registered office:

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

Principal place of business:

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

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

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

Notes to the Financial Statements

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, 1965 in Malaysia.

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

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

Standards, amendments to published standards and interpretations that are effective

On 1 January 2016, the Group has applied the following improvements and amendments to published standards:

Annual Improvements to 2012 – 2014 Cycle	Amendments to MFRS 7 'Financial Instruments', MFRS 119 'Employee Benefits' and MFRS 134 'Interim Financial Reporting'
Amendments to MFRS 116 'Property, Plant and Equipment' and MFRS 138 'Intangible Assets'	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 101 'Presentation of Financial Statements'	Disclosure initiative

The adoption of the above improvements and amendments to published standards did not have any significant impact on the financial statements of the Group.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments that have been issued but not yet effective

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

(i) Financial year beginning on/after 1 January 2017

- Amendments to MFRS 107 'Statement of Cash Flows' – Disclosure Initiative (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities, both changes arising from cash flows and non-cash changes.

  Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flow will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

  One way to fulfil the disclosure requirements is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link item included in the reconciliation to the statement of financial position and the statement of cash flows.

  If an entity provides the disclosure required in combination with disclosures of changes in other assets and liabilities, it shall disclose the change in liabilities arising from financing activities separately from changes in those other assets and liabilities.

- Amendments to MFRS 112 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future period against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences. The amendments shall be applied retrospectively.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

  This Interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions. This Interpretation also provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

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

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

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

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

(i) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

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

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

(iii) Disposal of subsidiaries

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

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

(iv) Associates

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation (continued)

(iv) Associates (continued)

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

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

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

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

(c) Segment reporting

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

(d) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Notes to the Financial Statements

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

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

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

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

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

(e) Property, plant and equipment

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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

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

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

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of the respective leases that ranges from 50 to 99 years. Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

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

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

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

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

(f) Prepaid lease payments

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(h) Intangible assets

(i) Goodwill

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

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

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

(ii) Software

Acquired software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. This cost is amortised over its estimated useful life of 8 years.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (continued)

(iii) Rights to supply

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

During the current year, in view of the ongoing negotiations to finalise the term and conditions for the extension of the concession, the Group has revised the remaining estimated useful life of the expenses incurred for the rights to supply under the Concession Agreement from 4 years to 14 years. The revision has been accounted for as a change in accounting estimate and as a result, the amortisation charge for the financial year was reduced by RM23.4 milllion.

(iv) Manufacturing licences

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

(v) Trade name

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

(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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Research and development (continued)

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

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

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

(j) Impairment of non-financial assets

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

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

(k) Inventories

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trade and other receivables

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

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

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

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

(m) Cash and cash equivalents

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

(n) Share capital

(i) Classification

Ordinary shares are classified as equity.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(iii) Dividends

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

(iv) 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 rather than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Share capital (continued)

(v) Diluted earnings per share

Diluted earnings per share adjust the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Borrowings and borrowing costs

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

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

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

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

(p) Trade payables

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

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

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

(iii) Defined benefit plan

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(iv) Option Plan

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

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

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

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

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

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

(v) Deferred shares – Long Term Incentive Plan

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

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

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

Notes to the Financial Statements

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

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

(i) Sale of goods and services

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

(ii) Contracts

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

(iii) Interest income

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

(iv) Dividend income

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

(t) Current and deferred income taxes

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

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

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

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

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

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial assets

Classification

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

Loans and receivables

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

Recognition and measurement

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

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

De-recognition

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

(v) Offsetting financial instruments

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

(w) Impairment of financial assets

Assets carried at amortised cost

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

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

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

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

(x) 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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Deferred income

(i) RoyalePharma cash vouchers

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

(ii) Government grants

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

(z) Contingent assets and liabilities

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

(aa) Leases

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

<u>Accounting by lessee</u>

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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Leases (continued)

Accounting by lessee (continued)

Operating leases

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

(ab) Zakat

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

Zakat rates enacted or substantively enacted by the reporting date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for 2016 is 2.5% of the zakat base. The zakat base of the Group is determined based on the profit after tax of eligible companies within the Group after deducting certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment of property, plant and equipment and capitalised development costs

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

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

Notes to the Financial Statements

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Impairment of goodwill

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

Recognition of deferred tax assets by the Group's small volume injectable subsidiary

As at 31 December 2016, the Group has deferred tax assets amounted to RM9.4 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 profits projections are determined based on the Group's estimated future financial performance. The key assumptions such as sales volume growth rates and margins used in determining the future taxable profit projections of the small volume injectable subsidiary are set out in Note 12.

Recoverability of cost of investment in a small volume injectable subsidiary

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

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

Revision in useful life of intangible asset

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 tittle of the PhIS and CPS systems would vest with the Government of Malaysia.

During the financial year, in view of the ongoing negotiations to finalise the terms and conditions for the extension of the concession, the Group has revised the remaining estimated useful life of the expenses incurred for the rights to supply under the Concession Agreement from 4 years to 14 years. The impact of the revision in useful life has been accounted for as a change in accounting estimate and shall be applied prospectively. The change has resulted in lower amortisation charge of RM23.4 million during the financial year.

Notes to the Financial Statements

4 REVENUE

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue consists of:					
Contracts	33	**63,248**	68,973	**–**	–
Sale of goods		**2,125,774**	2,120,339	**–**	–
Dividend income		**–**	–	**94,500**	65,000
Management fees		**–**	–	**10,576**	6,781
		2,189,022	2,189,312	**105,076**	71,781

5 COST OF SALES

		Group	
	Note	2016 RM'000	2015 RM'000
Cost of sales consists of:			
Amortisation of intangible assets	16	**11,773**	26,399
Depreciation of property, plant and equipment	12	**17,962**	16,193
Employee benefit expenses	8	**38,553**	36,110
Finished goods purchases		**1,517,233**	1,527,979
Impairment of/(reversal of) slow moving and obsolete inventories		**1,806**	(986)
Inventories written off		**534**	3,304
Inventories written down		**1,043**	556
Raw materials and consumables used		**150,028**	114,598
Selling and distribution costs		**35,269**	33,027
Others		**8,930**	10,664
Cost of inventories sold		**1,783,131**	1,767,844
Contracts costs	33	**62,644**	68,615
		1,845,775	1,836,459

Notes to the Financial Statements

6 FINANCE COSTS

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest expenses on:					
– bankers' acceptances		**9,336**	5,681	**–**	–
– revolving credits		**13,927**	9,066	**4,117**	3,468
– foreign time loan		**10,440**	6,945	**–**	–
		33,703	21,692	**4,117**	3,468
Less: Interest expense capitalised as contract costs	33	**–**	(6,546)	**–**	–
		33,703	15,146	**4,117**	3,468

Notes to the Financial Statements

7 PROFIT BEFORE ZAKAT AND TAXATION

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

		Group		Company	
	Note	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amortisation of intangible assets	16	**14,508**	28,930	**–**	–
Amortisation of prepaid lease payments	13	**133**	128	**–**	–
Auditors' remuneration:					
– statutory audit fees					
- PricewaterhouseCoopers, Malaysia		**528**	447	**192**	138
- firms other than member firms of PricewaterhouseCoopers International Limited		**192**	139	**–**	–
– other non-audit fees		**6**	231	**–**	198
Bad debts written off		**284**	258	**–**	–
Directors' fees:					
– Executive	8	**30**	30	**–**	–
– Non-executive		**646**	646	**532**	532
Directors' other allowances and emoluments		**183**	201	**122**	36
Employee benefit expenses		**168,350**	147,447	**12,614**	5,962
Foreign exchange losses		**968**	3,372	**–**	65
Impairment loss on/(reversal of):					
– amounts due from subsidiaries	20(a)	**–**	–	**2,993**	(7,077)
– investment in subsidiaries	14	**–**	–	**–**	3,773
– trade receivables	18	**760**	(6,620)	**–**	–
Property, plant and equipment:					
– depreciation	12	**31,291**	27,979	**–**	–
– written-off	12	**56**	33	**–**	–
Impairment of slow moving and obsolete inventories		**6,782**	4,064	**–**	–
Management fees paid/payable to immediate holding company		**306**	301	**161**	168
Rental of premises		**10,403**	11,419	**6**	4
Rental of equipment		**3,803**	2,945	**64**	64
Research and development expenses		**1,697**	4,814	**–**	–

Notes to the Financial Statements

7 PROFIT BEFORE ZAKAT AND TAXATION (CONTINUED)

(b) Other income

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Gain on disposal of property, plant and equipment		**116**	20	**–**	–
Rental income		**18**	23	**–**	–
Utilisation of government grant		**154**	–	**–**	–
Foreign exchange gains		**843**	–	**218**	–
Others		**181**	320	**4**	38
		1,312	363	**222**	38

8 EMPLOYEE BENEFIT EXPENSES

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries and bonuses		**111,888**	102,340	**4,510**	3,093
Defined contribution plan		**12,496**	14,021	**634**	382
Defined benefit plan	32	**1,422**	1,214	**–**	–
Share-based expenses		**6,569**	–	**3,856**	–
Other short-term employee benefits		**33,065**	28,256	**707**	874
		165,440	145,831	**9,707**	4,349
Executive Director's remuneration:					
– Salaries and bonuses		**1,625**	1,380	**1,625**	1,380
– Fee		**30**	30	**–**	–
– Defined contribution plan		**216**	173	**216**	173
– Share-based expenses		**1,006**	–	**1,006**	–
– Other short-term employee benefits		**63**	63	**60**	60
		2,940	1,646	**2,907**	1,613
Total		**168,380**	147,477	**12,614**	5,962

Notes to the Financial Statements

8 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Employee benefit expenses included in:					
– cost of sales	5	**38,553**	36,110	**–**	–
– administrative expenses		**129,797**	111,337	**12,614**	5,962
Executive Director's fee	7(a)	**30**	30	**–**	–
		168,380	147,477	**12,614**	5,962

The estimated monetary value of benefits provided to a Director of the Company during the financial year amounted to RM37,200 (2015: RM37,200).

9 TAXATION

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current tax:					
– Malaysian income tax		**16,905**	26,499	**–**	–
– foreign income tax		**1,134**	1,729	**–**	–
– over accrual in prior years		**(3,064)**	(2,569)	**–**	–
		14,975	25,659	**–**	–
Deferred taxation:					
– origination and reversal of temporary differences	31	**10,933**	1,779	**–**	–
Tax expense		**25,908**	27,438	**–**	–

Notes to the Financial Statements

9 TAXATION (CONTINUED)

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

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation after zakat		**71,767**	112,022	**78,601**	52,042
Income tax at rate of 24% (2015: 25%)		**17,224**	28,005	**18,864**	13,010
Tax effects of:					
Expenses not deductible for tax purpose		**10,454**	5,237	**3,833**	4,215
Expenses subject to double deduction		**(4,052)**	(2,799)	**–**	–
Income not subject to tax		**(269)**	(103)	**(22,680)**	(18,034)
Current year's deductible temporary differences and tax losses not recognised as deferred tax		**1,754**	2,401	**–**	777
Recognition of previously unrecognised temporary differences		**3,861**	(2,440)	**(17)**	–
Over accrual of tax in prior years		**(3,064)**	(2,569)	**–**	–
Change in tax rate		**–**	(294)	**–**	32
Tax expense		**25,908**	27,438	**–**	–

10 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Group	
	2016 RM'000	2015 RM'000
Net profit attributable to owners of the Company (RM'000)	**45,599**	84,044
Weighted average number of ordinary shares in issue ('000)	**259,107**	258,882
Basic earnings per share (sen)	**17.60**	32.46

Notes to the Financial Statements

10 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

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

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

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

	Group	
	2016	**2015**
Net profit attributable to owners of the Company (RM'000)	**45,599**	84,044
Weighted average number of ordinary shares in issue ('000)	**259,107**	258,882
Assumed shares in issued from the exercise of Option Plan ('000)	**209**	–
Assumed shares issued under Long Term Incentive Plan ('000)	**582**	–
Weighted average number of ordinary shares in issue ('000)	**259,898**	258,882
Diluted earnings per share (sen)	**17.54**	32.46

Notes to the Financial Statements

11 DIVIDENDS

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

	Company			
	2016		2015	
	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 2016:				
– First interim single tier dividend	**4.00**	**10,355**	–	–
– Second interim single tier dividend	**5.00**	**12,969**	–	–
– Third interim single tier dividend	**4.00**	**10,375**	–	–
In respect of the financial year ended 31 December 2015:				
– First interim single tier dividend	**–**	**–**	7.00	18,122
– Second interim single tier dividend	**–**	**–**	7.00	18,122
– Third interim single tier dividend	**–**	**–**	9.00	23,299
– Fourth interim single tier dividend	**7.00**	**18,122**	–	–
In respect of the financial year ended 31 December 2014:				
– Fourth interim single tier dividend	**–**	**–**	12.00	31,066
	20.00	**51,821**	35.00	90,609

Subsequent to the end of the current financial year, the Directors have declared a fourth interim single tier dividend of 3.0 sen per share amounting to RM7,781,000 in respect of the financial year ended 31 December 2016. The dividend will be paid on 17 March 2017 and will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

The Directors do not recommend any final dividend in respect of the financial year ended 31 December 2016.

Notes to the Financial Statements

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 2016						
Cost	**302,474**	**118,538**	**12,013**	**246,040**	**48,593**	**727,658**
Accumulated depreciation	**(91,690)**	**(81,318)**	**(7,645)**	**(126,540)**	**–**	**(307,193)**
Net book value	**210,784**	**37,220**	**4,368**	**119,500**	**48,593**	**420,465**
At 31 December 2015						
Cost	299,668	109,083	10,739	238,795	25,714	683,999
Accumulated depreciation	(84,107)	(72,378)	(6,298)	(115,032)	–	(277,815)
Net book value	215,561	36,705	4,441	123,763	25,714	406,184

Notes to the Financial Statements

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 2016		**215,561**	**36,705**	**4,441**	**123,763**	**25,714**	**406,184**
Acquisition of a subsidiary	14	**–**	**645**	**–**	**–**	**–**	**645**
Additions		**2,124**	**7,762**	**1,412**	**7,765**	**25,870**	**44,933**
Disposals		**–**	**(13)**	**(1)**	**(34)**	**–**	**(48)**
Written off	7(a)	**–**	**(54)**	**–**	**(2)**	**–**	**(56)**
Capitalised as intangible assets	16	**–**	**(117)**	**–**	**(176)**	**–**	**(293)**
Reclassification		**(292)**	**1,982**	**–**	**1,302**	**(2,992)**	**–**
Depreciation charged	7(a)	**(6,931)**	**(9,747)**	**(1,495)**	**(13,118)**	**–**	**(31,291)**
Foreign exchange adjustments		**322**	**57**	**11**	**–**	**1**	**391**
At 31 December 2016		**210,784**	**37,220**	**4,368**	**119,500**	**48,593**	**420,465**
At 1 January 2015		196,797	36,418	1,953	118,484	16,148	369,800
Acquisition of a business	16	–	–	462	–	–	462
Additions		23,445	13,927	2,947	8,892	11,469	60,680
Disposals		–	(30)	–	(190)	–	(220)
Written off	7(a)	–	(33)	–	–	–	(33)
Capitalised as intangible assets	16	–	(110)	–	(4)	–	(114)
Reclassification		989	(6,665)	–	7,579	(1,903)	–
Depreciation charged	7(a)	(6,516)	(8,644)	(1,079)	(11,740)	–	(27,979)
Foreign exchange adjustments		846	1,842	158	742	–	3,588
At 31 December 2015		215,561	36,705	4,441	123,763	25,714	406,184

Notes to the Financial Statements

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 2016					
Cost	**25,581**	**26,878**	**119,753**	**130,262**	**302,474**
Accumulated depreciation	**–**	**(2,964)**	**(32,623)**	**(56,103)**	**(91,690)**
Net book value	**25,581**	**23,914**	**87,130**	**74,159**	**210,784**
At 31 December 2015					
Cost	25,175	26,878	119,164	128,451	299,668
Accumulated depreciation	–	(2,497)	(30,532)	(51,078)	(84,107)
Net book value	25,175	24,381	88,632	77,373	215,561
Movements in net book value					
At 1 January 2016	**25,175**	**24,381**	**88,632**	**77,373**	**215,561**
Additions	**343**	**–**	**523**	**1,258**	**2,124**
Reclassification	**–**	**–**	**18**	**(310)**	**(292)**
Depreciation charged	**–**	**(467)**	**(2,052)**	**(4,412)**	**(6,931)**
Foreign exchange adjustments	**63**	**–**	**9**	**250**	**322**
At 31 December 2016	**25,581**	**23,914**	**87,130**	**74,159**	**210,784**
At 1 January 2015	25,045	9,300	90,809	71,643	196,797
Additions	–	15,400	–	8,045	23,445
Reclassification	–	–	–	989	989
Depreciation charged	–	(319)	(2,049)	(4,148)	(6,516)
Foreign exchange adjustments	130	–	(128)	844	846
At 31 December 2015	25,175	24,381	88,632	77,373	215,561

Notes to the Financial Statements

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 2016				
Cost	**26,224**	**33,909**	**58,405**	**118,538**
Accumulated depreciation	**(20,333)**	**(21,677)**	**(39,308)**	**(81,318)**
Net book value	**5,891**	**12,232**	**19,097**	**37,220**
At 31 December 2015				
Cost	24,993	30,517	53,573	109,083
Accumulated depreciation	(19,359)	(19,531)	(33,488)	(72,378)
Net book value	5,634	10,986	20,085	36,705
Movements in net book value				
At 1 January 2016	**5,634**	**10,986**	**20,085**	**36,705**
Acquisition of a subsidiary (Note 14)	**–**	**–**	**645**	**645**
Additions	**860**	**3,021**	**3,881**	**7,762**
Disposals	**–**	**–**	**(13)**	**(13)**
Written off	**(38)**	**(5)**	**(11)**	**(54)**
Capitalised as intangible assets	**(6)**	**(21)**	**(90)**	**(117)**
Reclassification	**522**	**987**	**473**	**1,982**
Depreciation charged	**(1,085)**	**(2,749)**	**(5,913)**	**(9,747)**
Foreign exchange adjustments	**4**	**13**	**40**	**57**
At 31 December 2016	**5,891**	**12,232**	**19,097**	**37,220**

Notes to the Financial Statements

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 (continued)				
At 1 January 2015	11,180	8,686	16,552	36,418
Additions	1,208	4,024	8,695	13,927
Disposals	(13)	–	(17)	(30)
Written off	(10)	–	(23)	(33)
Capitalised as intangible assets	(7)	(21)	(82)	(110)
Reclassification	(7,316)	455	196	(6,665)
Depreciation charged	(1,225)	(1,977)	(5,442)	(8,644)
Foreign exchange adjustments	1,817	(181)	206	1,842
At 31 December 2015	5,634	10,986	20,085	36,705

Depreciation expense of the Group of RM17,962,000 (2015: RM16,193,000) has been charged in 'cost of sales' and RM13,329,000 (2015: RM11,786,000) in 'administrative expenses'.

Property, plant and equipment under hire purchase arrangements

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

	Group	
	2016 RM'000	**2015 RM'000**
Plant and machinery	**830**	1,379
Motor vehicles	**113**	212
Equipment	**681**	626
	1,624	2,217

Notes to the Financial Statements

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Group	
	2016 RM'000	**2015 RM'000**
Acquisition of property, plant and equipment during the financial year	**44,933**	60,680
Less: Accrual of property, plant and equipment	**(1,561)**	(451)
Less: Acquired through hire purchase arrangement	**(184)**	–
Add: Payments for property, plant and equipment purchased in prior year	**451**	1,069
Net cash outflow for the acquisition of property, plant and equipment	**43,639**	61,298

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

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

The carrying amount of assets totalling RM147.6 million (2015: RM137.7 million) comprising property, plant and equipment and capitalised development costs of work-in-progress included in intangible assets (Note 16) of RM140.9 million and RM6.7 million (2015: RM132.8 million and RM4.9 million) respectively were tested for impairment.

The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

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

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

Notes to the Financial Statements

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

- Business analysis – The cash-generating unit makes assumptions about the demand for its existing products and new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation. The cash-generating unit also makes assumptions about cost levels determined based on the average inflation rate in Malaysia. The projected sales volume growth rates and margins by product ranges between 1% to 20% (2015: 1% to 15%) and 3% to 52% (2015: 10% to 33%) respectively.

- Values of land and buildings – The estimated value of the land of RM42.3 million (2015: RM42.3 million) is based on an independent external valuation and approximates the present value of the cash flows expected to be received from these assets at the end of fifteen years. The value for the building and other property, plant and equipment is expected to be nil as these assets would be fully depreciated and scrapped at the end of the useful life with minimal recoverable amounts.

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 10.5% (2015: 11.3%) 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 intangible asset as at 31 December 2016 as their recoverable amounts were in excess of their carrying amounts.

  There are no reasonably possible changes in any of the key assumptions used that would caused the carrying amount of the property, plant and equipment and capitalised development cost of work-in-progress to materially exceed the recoverable amount.

Notes to the Financial Statements

13 PREPAID LEASE PAYMENTS

		Group	
	Note	2016 RM'000	2015 RM'000
Cost		**3,543**	3,421
Accumulated amortisation		**(927)**	(793)
Net book value		**2,616**	2,628

Movements in net book value

	Note	2016 RM'000	2015 RM'000
At 1 January		**2,628**	2,547
Amortisation during the financial year	7(a)	**(133)**	(128)
Foreign exchange adjustments		**121**	209
At 31 December		**2,616**	2,628

14 SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
Investment in subsidiaries:		
Unquoted shares, at cost	**361,054**	357,554
Less: Accumulated impairment	**(378)**	(378)
	360,676	357,176
Capital contribution to subsidiaries	**1,414**	–
Amount due from a subsidiary	**79,434**	79,434
Less: Accumulated impairment	**(3,773)**	(3,773)
	75,661	75,661
	437,751	432,837

Notes to the Financial Statements

14 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.

Amount due from a subsidiary

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

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

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2016	2015
Subsidiaries of the Company				
Idaman Pharma Manufacturing Sdn. Bhd.	Manufacture and sale of pharmaceutical products	RM25,000,000	**100**	100
Pharmaniaga Manufacturing Berhad	Manufacture and sale of pharmaceutical products	RM10,000,000	**100**	100
Pharmaniaga LifeScience Sdn. Bhd.	Manufacture and sale of pharmaceutical products	RM75,000,000	**100**	100
Pharmaniaga Logistics Sdn. Bhd.	Distribution of pharmaceutical and medical products	RM40,000,000	**100**	100
Pharmaniaga Marketing Sdn. Bhd.	Trading and marketing of pharmaceutical and medical products	RM3,000,000	**100**	100
Pharmaniaga Research Centre Sdn. Bhd.	Conduct research and development of pharmaceutical products	RM100,000	**100**	100
Pharmaniaga Pristine Sdn. Bhd.	Trading and wholesaling of consumer products	RM20,000,050	**100**	100

Notes to the Financial Statements

14 SUBSIDIARIES (CONTINUED)

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

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2016	2015
Subsidiaries of the Company (continued)				
Bio-Collagen Technologies Sdn. Bhd.	Research and manufacture of collagen medical devices (dressings) for wound management application	RM2,000,000	**70**	–
Pharmaniaga International Corporation Sdn. Bhd.	Investment holding	RM12,000,000	**100**	100
Pharmaniaga Pegasus (Seychelles) Co. Ltd. @	Dormant	USD100,000	**100**	100
Pharmaniaga Biovention Sdn. Bhd.	Struck off during the year	RM2	**–**	100
Insurgress Sdn. Bhd.	Struck off during the year	RM2	**–**	100
Subsidiary of Pharmaniaga Logistics Sdn. Bhd.				
Pharmaniaga Biomedical Sdn. Bhd.	Supply, trading and installation of medical and hospital equipment	RM8,000,000	**100**	100
Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd.				
PT Millennium Pharmacon International Tbk *# ("PT MPI")	Distribution and trading of pharmaceutical products, food supplements and diagnostic products in Indonesia	Rp72,800,000,000	**55**	55

Notes to the Financial Statements

14 SUBSIDIARIES (CONTINUED)

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

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2016	2015
Subsidiaries of Pharmaniaga International Corporation Sdn. Bhd. (continued)				
PT Mega Pharmaniaga*# ("PT MegPha")	Trading and marketing of pharmaceutical and medical products in Indonesia	Rp11,372,400,000	**95**	95
PT Errita Pharma *# ("PT Errita")	Manufacture and sale of pharmaceutical products in Indonesia	Rp95,832,000,000	**85**	75

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

Impairment assessment for cost of investment

As described in Note 12, the Company has undertaken an impairment assessment in the current financial year for its investment in a subsidiary that operates the Group's small volume injectable production plant using the same discounted future cash flows, adjusted for tax and repayment of intercompany balances. In measuring the recoverable amount determined based on value-in-use calculations, discount rate of 11.42% (2015: 11.14%), 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 2016 as the recoverable amount was in excess of its carrying amount.

There are no reasonably possible changes in any of the key assumptions used that would cause the carrying amount of the cost of investment to materially exceed the recoverable amount.

Notes to the Financial Statements

14 SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary during the financial year

On 23 May 2016, the Company had completed the acquisition of 70% equity interest in Bio-Collagen Technologies Sdn. Bhd. ("Bio-Collagen"), a manufacturer of collagen medical devices (dressings) for wound management application, and other product and medical devices for a total cash consideration of RM3.5 million.

The goodwill arising from the acquisition represents the expected synergies from the Group's position as the first mover for collagen-based medical dressings in Malaysia with access to international markets and vast market demand.

As of the date of this report, management has yet to finalise the purchase price allocation ("PPA") for business combination. As per the requirement under MFRS 3 "Business Combinations", management has 12 months from the date of the acquisition to complete the PPA exercise. Upon finalisation of the PPA, the Group will recognise any adjustments to the goodwill arising from the acquisition in 2017.

Based on the preliminary assessment, the provisional goodwill on acquisition is estimated at RM3.4 million. The provisional fair value of the net assets acquired and cash flow arising from the acquisition is as follows:

	Carrying values RM'000	**Provisional fair value at date of acquisition RM'000**
Plant and equipment	645	645
Intangible asset	150	150
Inventories	46	46
Other receivables	51	51
Cash and cash equivalents	6	6
Current tax liabilities	(139)	(139)
Deferred tax liabilities	(110)	(110)
Deferred income	(512)	(512)
Provisional fair value of total identifiable net assets acquired	137	137
Less: Total provisional fair value of net assets held by non-controlling interest		(41)
Identifiable net assets acquired		96
Provisional goodwill on acquisition		3,404
Total purchase consideration		3,500
Less: Cash and cash equivalents of subsidiary acquired		(6)
Less: Remaining purchase consideration to be payable after 24 months from the date of completion (Note 24)		(547)
Cash outflow of the Group on acquisition of a subsidiary		2,947

Notes to the Financial Statements

14 SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary during the financial year (continued)

Acquisition-related costs of RM46,700 had been charged to administrative expenses in the consolidated income statement for the financial year ended 31 December 2016.

There was no revenue contributed by Bio-Collagen which had been included in the consolidated statement of comprehensive income since 23 May 2016. Bio-Collagen also contributed net loss of RM637,000 over the same period.

Had Bio-Collagen been consolidated from 1 January 2016, the consolidated income statement would show pro-forma revenue of RM2,189,049,000 and net profit for the financial year of RM45,533,000.

Step-up acquisition in a subsidiary during the financial year

On 22 March 2016, the Group, through its wholly-owned subsidiary, Pharmaniaga International Corporation Sdn. Bhd. ("Pharmaniaga Corp"), acquired 383,328 ordinary shares representing additional 10% of the issued and paid-up capital in PT Errita Pharma ("PT Errita") for a total consideration of USD2,400,000 and IDR6,682,878,222, which collectively amounted to RM11,974,000 from the non-controlling shareholder, PT Dasar Technologi. Consequently, the Company's effective interest in PT Errita increased from 75% to 85%. The acquisition of the additional 10% equity interest in PT Errita is regarded as a transaction with non-controlling interest. The loss of RM8,549,000 arising from the accretion of equity interest has been recognised in retained earnings of the Group during the financial year.

Summarised financial information of subsidiaries with material non-controlling interests

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

Summarised statement of financial position

	PT Errita		PT MPI	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Current				
Assets	**27,879**	21,810	**239,863**	190,741
Liabilities	**(29,454)**	(18,233)	**(189,410)**	(144,634)
Total current net (liabilities)/assets	**(1,575)**	3,577	**50,453**	46,107
Non-current				
Assets	**42,411**	37,499	**7,842**	5,950
Liabilities	**(1,214)**	(895)	**(7,356)**	(6,564)
Total non-current net assets/(liabilities)	**41,197**	36,604	**486**	(614)
Net assets	**39,622**	40,181	**50,939**	45,493
Net assets attributable to non-controlling interest at the end of the financial year	**5,943**	10,045	**22,923**	20,472

Notes to the Financial Statements

14 SUBSIDIARIES (CONTINUED)

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

Summarised income statement

	PT Errita		PT MPI	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Revenue	**44,154**	22,382	**600,419**	485,609
(Loss)/profit before taxation	**(6,990)**	(4,758)	**4,277**	5,481
Taxation	**824**	560	**(921)**	(1,801)
Net (loss)/profit for the financial year	**(6,166)**	(4,198)	**3,356**	3,680
Other comprehensive income	**5,601**	9,866	**2,842**	4,542
Total comprehensive (loss)/income, net of tax for the financial year	**(565)**	5,668	**6,198**	8,222
Total comprehensive income allocated to non-controlling interests	**(677)**	1,417	**2,789**	3,700
Dividend paid to non-controlling interests	**–**	–	**338**	–

Summarised statement of cash flows

	PT Errita 2016 RM'000	PT Errita 2015 RM'000	PT MPI 2016 RM'000	PT MPI 2015 RM'000
Cash used in operations	**(2,615)**	(4,921)	**(10,661)**	(24,089)
Interest paid	**(885)**	(361)	**(9,793)**	(7,320)
Tax refund/(paid)	**–**	–	**912**	(2,396)
Net cash used in operating activities	**(3,500)**	(5,282)	**(19,542)**	(33,805)
Net cash used in investing activities	**(1,812)**	(3,053)	**(2,625)**	(1,217)
Net cash generated from financing activities	**8,149**	7,433	**24,427**	27,420
Net changes in cash and cash equivalents	**2,837**	(902)	**2,260**	(7,602)
Cash and cash equivalents at beginning of financial year	**1,646**	2,368	**11,180**	17,956
Foreign exchange differences	**293**	180	**959**	826
Cash and cash equivalents at end of financial year	**4,776**	1,646	**14,399**	11,180

Notes to the Financial Statements

15 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares, at cost	**19**	19	**19**	19
Less: Accumulated impairment	**(19)**	(19)	**(19)**	(19)
	–	–	**–**	–

Details of the associate are as follows:

Name of Company	Principal activities	Paid-up capital	Effective equity interest (%) 2016	Effective equity interest (%) 2015
Pharmacare Asia Holdings (Cayman) Limited +	Dormant, pending strike off	USD4,900	**49**	49

\+ Incorporated in Cayman Island

Notes to the Financial Statements

16 INTANGIBLE ASSETS

	Goodwill RM'000	Software RM'000	Rights to supply RM'000	Capitalised development cost of work-in-progress RM'000	Manu-facturing licences RM'000	Trade name RM'000	Total RM'000
Group							
Cost							
At 1 January 2016	145,671	3,965	177,157	6,101	17,292	4,136	354,322
Acquisition of a subsidiary (Note 14)	3,404	–	–	–	150	–	3,554
Additions	–	–	57,501	6,679	–	–	64,180
Transferred from property, plant and equipment (Note 12)	–	–	–	293	–	–	293
Foreign exchange adjustments	4,101	324	–	–	1,225	293	5,943
At 31 December 2016	153,176	4,289	234,658	13,073	18,667	4,429	428,292
Accumulated amortisation							
At 1 January 2016	–	3,183	50,355	–	3,517	506	57,561
Amortisation charged (Note 7(a))	–	561	11,766	7	1,904	270	14,508
Foreign exchange adjustments	–	321	–	–	396	57	774
At 31 December 2016	–	4,065	62,121	7	5,817	833	72,843
Accumulated impairment							
At 1 January 2016/ 31 December 2016	12,653	–	–	–	–	–	12,653
Net book value							
At 31 December 2016	140,523	224	172,537	13,066	12,850	3,596	342,796

Notes to the Financial Statements

16 INTANGIBLE ASSETS (CONTINUED)

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

Notes to the Financial Statements

16 INTANGIBLE ASSETS (CONTINUED)

Included in capitalised development cost of work-in-progress is development costs amounting to RM166,500 in respect of a product that has been commercialised during the financial year.

During the financial year, amortisation of RM11,773,000 (2015: RM26,399,000) is included in 'cost of sales' and RM2,735,000 (2015: RM2,531,000) in 'administrative expenses' in profit or loss.

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

	Group	
	2016 RM'000	**2015 RM'000**
Additions during the financial year	**64,180**	71,711
Less: Accrual of intangible assets	**(12,565)**	(18,210)
Add: Payment for intangible assets acquired in prior year	**18,210**	2,886
Net cash outflow on the acquisition of intangible assets	**69,825**	56,387

Acquisition of a business in prior financial year

In prior financial year, the Group had through its wholly-owned subsidiary, Pharmaniaga Logistics Sdn. Bhd. acquired a business from a third party for a purchase consideration of RM1,400,000.

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

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

Notes to the Financial Statements

16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

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

	2016 RM'000	2015 RM'000
Malaysia		
Trading and distribution	**16,839**	16,839
Manufacturing	**61,609**	58,205
Indonesia		
Trading and distribution	**2,709**	2,530
Manufacturing	**59,366**	55,444
Total	**140,523**	133,018

No impairment loss was required for the carrying amounts of goodwill assessed as at 31 December 2016 as their recoverable amounts were in excess of their carrying amounts.

The recoverable amounts of the CGUs are determined based on value-in-use ("VIU") calculations. Cash flows are derived based on financial budgets approved by the Directors covering a five-year period except for the manufacturing CGU in Indonesia that covers a period of nine years that reflects the product lifecycle of the plant. 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.

The key assumptions used in VIU calculations are as follows:

	Malaysia		Indonesia	
	Trading and distribution	Manufacturing	Trading and distribution	Manufacturing
2016				
Sales volume growth rate by product	**2.4% to 7.9%**	**(5.7%) to 28.6%**	**15.1% to 15.7%**	**10.0% to 35.0%**
Product margins	**8.0% to 8.3%**	**49.9% to 71.3%**	**7.0%**	**21.6% to 34.1%**
Discount rate	**10.08%**	**10.50%**	**13.34%**	**15.76%**
2015				
Sales volume growth rate by product	6.5% to 8.1%	(0.1%) to 31.0%	17.0% to 17.5%	(22.4%) to 26.1%
Product margins	8.2% to 10.9%	50.3% to 55.7%	7.2% to 7.5%	12.3% to 34.7%
Discount rate	11.3%	11.3%	10.4%	14.6%

Notes to the Financial Statements

16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (continued)

(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% (2015: 0%) that reflects long term growth forecast is applied in the VIU calculations.

(iv) Discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, the Directors concluded that no reasonable possible change in the base case assumptions would cause the carrying amounts of the CGUs to exceed their recoverable amounts.

Impairment assessment for capitalised development costs work-in-progress

As at 31 December 2016, the capitalised development costs of work-in-progress other than the costs relating to the Group's small volume injectable production plant which had been assessed together with the related property, plant and equipment (Note 12) amounting to RM6.7 million (2015: RM4.9 million) was tested for impairment. The impairment test was performed by comparing the cash-generating unit's carrying amount with its recoverable amount. The recoverable amount is determined using value-in-use calculations.

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

(i) Assumptions and approach used

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

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

- Business analysis – The cash-generating unit makes assumptions about the demand for these new products under development in the market place. These assumptions are used to drive the planning assumptions for sales volume taking into consideration the projected timing for development, testing, registration and commercialisation using a projected long-term average growth rate of 3% to 5% (2015: 5%).

- Discount rate – In measuring the recoverable amount based on the value-in-use calculations, discount rate of 10.5% (2015: 11.3%) has been applied. The discount rate reflects the prevailing market rate applicable to the industry adjusted for the risk of the assets.

No impairment was required for capitalised development costs work-in-progress as at 31 December 2016 as their recoverable amounts were in excess of their carrying amounts.

Notes to the Financial Statements

17 INVENTORIES

	Group	
	2016 RM'000	**2015 RM'000**
Raw materials	**42,805**	36,751
Packaging materials	**20,643**	18,627
Work-in-progress	**5,270**	8,049
Finished goods	**463,493**	476,469
	532,211	539,896

18 TRADE RECEIVABLES

		Group	
	Note	**2016 RM'000**	**2015 RM'000**
Current			
Trade receivables		**169,204**	156,263
Less: Provision for impairment of trade receivables		**(7,936)**	(8,969)
		161,268	147,294
Amounts due from customers on contracts	33	**8**	367
		161,276	147,661
Non-current			
Trade receivables		**13,838**	11,041
Less: Provision for impairment of trade receivables		**(1,602)**	(1,454)
		12,236	9,587

The credit terms of trade receivables range from 30 days to 120 days (2015: 30 days to 120 days).

Notes to the Financial Statements

18 TRADE RECEIVABLES (CONTINUED)

Ageing analysis of trade receivables

The ageing analysis of trade receivables is as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Neither past due nor impaired	**12,836**	12,493
Past due but not impaired:		
– Less than three months	**130,146**	117,638
– Between three to six months	**8,878**	9,065
– Between six months and one year	**3,452**	3,285
– Greater than one year	**2,114**	3,480
	144,590	133,468
Impaired	**25,616**	21,343
	183,042	167,304

Trade receivables that are neither past due nor impaired

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

Trade receivables that are past due but not impaired

As at 31 December 2016, trade receivables of RM144.6 million (2015: RM133.5 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

Notes to the Financial Statements

18 TRADE RECEIVABLES (CONTINUED)

Trade receivables that are impaired

The Group's trade receivables that are impaired at the reporting date are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Gross trade receivables	**25,616**	21,343
Less: Provision for impairment of trade receivables	**(9,538)**	(10,423)
	16,078	10,920

(a) Receivables amounting to RM7,753,000 (2015: RM8,914,000) relate to private customers, which are in unexpectedly difficult economic situation.

(b) Receivables amounting to RM17,863,000 (2015: RM12,429,000) are expected to be settled by instalment plan.

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

		Group	
	Note	**2016 RM'000**	**2015 RM'000**
At 1 January		**10,423**	18,398
Provision for/(write back of provision for) impairment during the financial year	7(a)	**760**	(6,620)
Written off		**(1,795)**	(1,543)
Foreign exchange differences		**150**	188
At 31 December		**9,538**	10,423

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

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

Notes to the Financial Statements

19 OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Other receivables	**17,318**	4,955	**8,648**	78
Less: Provision for impairment of other receivables	**(108)**	(108)	**–**	–
	17,210	4,847	**8,648**	78
Advance to a corporate shareholder of a subsidiary	**17,960**	–	**–**	–
Prepayments	**15,585**	10,520	**20**	258
Deposits	**3,376**	2,823	**–**	1
GST/VAT recoverable	**40,882**	29,404	**–**	–
	95,013	47,594	**8,668**	337

The advance to a corporate shareholder of a subsidiary is unsecured, interest free and repayable on demand.

Ageing analysis of other receivables

The ageing analysis of other receivables is as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Neither past due nor impaired	**11,561**	3,070
Past due but not impaired:		
- Less than three months	**3,584**	1,747
- Between three to six months	**202**	5
- Between six months and one year	**901**	8
- Greater than one year	**962**	17
	5,649	1,777
Impaired:		
- Greater than one year	**108**	108
	17,318	4,955

Notes to the Financial Statements

19 OTHER RECEIVABLES (CONTINUED)

Other receivables that are neither past due nor impaired

Other receivables of the Company of RM8,648,000 (2015: RM78,000) are neither past due nor impaired.

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

Other receivables that are past due but not impaired

As at 31 December 2016, other receivables of the Group amounting to RM5.6 million (2015: RM1.8 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings.

Other receivables that are impaired

As at 31 December 2016, other receivables of the Group of RM0.1 million (2015: RM0.1 million) were impaired and provided for. The impaired receivable relates to a private customer, which is currently under dispute.

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

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January/31 December	**108**	108

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

Notes to the Financial Statements

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

	Company	
	2016 RM'000	2015 RM'000
Non-current		
Amounts due from subsidiaries	**175,648**	157,761
Less: Provision for impairment	**(36,602)**	(33,609)
Amounts due from subsidiaries - net	**139,046**	124,152
Current		
Amounts due from subsidiaries	**121,353**	71,377
Less: Provision for impairment	**(24,135)**	(24,135)
Amounts due from subsidiaries - net	**97,218**	47,242

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

As at 31 December 2016, out of the total gross amounts due from subsidiaries of RM297.0 million (2015: RM229.1 million), amounts due from subsidiaries totalling RM200.9 million (2015: RM182.9 million) were impaired. The remaining balances of RM96.1 million (2015: RM46.2 million) were not impaired as there is no expectation of default based on expected future operational cash flows of these subsidiaries. The amount of the provision was RM60.7 million as at 31 December 2016 (2015: RM57.7 million). The individually impaired receivables relate to subsidiaries, for which the expectation of recovery is after 12 months.

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

	Company	
	2016 RM'000	2015 RM'000
At 1 January	**57,744**	64,821
Provision for/(write back of provision for) impairment during the financial year	**2,993**	(7,077)
At 31 December	**60,737**	57,744

Notes to the Financial Statements

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

(b) Amounts due to subsidiaries

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

Dividend income from subsidiaries totalling RM94.5 million (2015: RM65.0 million) during the financial year was set off with amounts due to subsidiaries.

21 AMOUNTS DUE TO RELATED COMPANIES

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

22 DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Cash and bank balances	**70,456**	21,450	**377**	189
Deposits with licensed banks	**–**	1,068	**–**	–
	70,456	22,518	**377**	189

In prior financial year, deposits with licensed banks of the Group as at the end of financial year had an average maturity period of 3 days and a weighted average effective interest rate of 3.64% per annum.

Cash and bank balances are deposits held at call with banks and earn no interest except for bank balances amounting to RM1.0 million (2015: RM2.0 million) that earn interest at 2.60% (2015: 2.80%) per annum.

Notes to the Financial Statements

23 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2015: 30 days to 120 days).

24 OTHER PAYABLES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Non-current				
Other payables (Note 14)	**547**	–	**547**	–
Current				
Other payables	**54,431**	37,791	**3,071**	1,730
Accruals	**9,357**	13,402	**422**	2,135
	63,788	51,193	**3,493**	3,865

Included in other payables of the Group and of the Company is the remaining balance of the purchase consideration of RM547,000 in respect of the acquisition of 70% equity interest in Bio-Collagen Technologies Sdn. Bhd. (Note 14).

25 AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

Notes to the Financial Statements

26 DEFERRED INCOME

	Government grants RM'000	RoyalePharma voucher RM'000	Total RM'000
Group			
At 1 January 2016	**–**	**196**	**196**
Acquisition of a subsidiary (Note 14)	**512**	**–**	**512**
Additions during the financial year	**4,096**	**1,198**	**5,294**
Recognition of income during the financial year	**(154)**	**(1,234)**	**(1,388)**
At 31 December 2016	**4,454**	**160**	**4,614**
Analysed as:			
– Current	**264**	**160**	**424**
– Non-current	**4,190**	**–**	**4,190**
	4,454	**160**	**4,614**
At 1 January 2015	–	152	152
Issued during the financial year	–	1,160	1,160
Recognition of income during the financial year	–	(1,116)	(1,116)
At 31 December 2015	–	196	196
Analysed as:			
– Current	–	196	196

Government grants relate to monies received from certain government agencies to fund the purchase of certain intangible assets, plant and machinery of the Group.

Notes to the Financial Statements

27 LOANS AND BORROWINGS

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Current				
Unsecured:				
– Bankers' acceptances	**284,277**	73,662	**–**	–
– Revolving credits	**230,000**	245,000	**130,000**	80,000
– Foreign time loan	**101,921**	80,384	**–**	–
	616,198	399,046	**130,000**	80,000
Secured:				
– Hire purchase	**466**	567	**–**	–
	616,664	399,613	**130,000**	80,000
Non-current				
Secured:				
– Hire purchase	**248**	558	**–**	–
Total				
Bankers' acceptances	**284,277**	73,662	**–**	–
Revolving credits	**230,000**	245,000	**130,000**	80,000
Foreign time loan	**101,921**	80,384	**–**	–
Hire purchase	**714**	1,125	**–**	–
	616,912	400,171	**130,000**	80,000
Hire purchase liabilities				
Minimum payments:				
– Payable within 1 year	**499**	644	**–**	–
– Payable between 1 and 5 years	**263**	566	**–**	–
	762	1,210	**–**	–
Less: Future finance charges	**(48)**	(85)	**–**	–
Present value of liabilities	**714**	1,125	**–**	–

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

Notes to the Financial Statements

27 LOANS AND BORROWINGS (CONTINUED)

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

	Effective interest rate at year end % per annum	Fixed interest rate RM'000	Floating interest rate RM'000	Repayment terms <1 year RM'000	Repayment terms >1 year RM'000	Total carrying amount RM'000
Group						
At 31.12.2016						
Bankers' acceptances	**4.47**	**284,277**	**–**	**284,277**	**–**	**284,277**
Revolving credits	**4.50**	**230,000**	**–**	**230,000**	**–**	**230,000**
Foreign time loan	**11.46**	**–**	**101,921**	**101,921**	**–**	**101,921**
Hire purchase	**3.66**	**714**	**–**	**466**	**248**	**714**
		514,991	**101,921**	**616,664**	**248**	**616,912**
At 31.12.2015						
Bankers' acceptances	3.63	73,662	–	73,662	–	73,662
Revolving credits	4.43	245,000	–	245,000	–	245,000
Foreign time loan	9.73	–	80,384	80,384	–	80,384
Hire purchase	5.01	1,125	–	567	558	1,125
		319,787	80,384	399,613	558	400,171
Company						
At 31.12.2016						
Revolving credits	**4.75**	**130,000**	**–**	**130,000**	**–**	**130,000**
At 31.12.2015						
Revolving credits	4.67	80,000	–	80,000	–	80,000

Notes to the Financial Statements

27 LOANS AND BORROWINGS (CONTINUED)

Foreign time loan

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

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

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Ringgit Malaysia	**500,349**	315,319	**130,000**	80,000
Indonesian Rupiah	**116,563**	84,852	**–**	–
	616,912	400,171	**130,000**	80,000

28 SHARE CAPITAL

	Group and Company	
	2016 RM'000	**2015 RM'000**
Authorised ordinary shares of RM0.50 each:		
At 1 January/31 December	**300,000**	300,000
Issued and fully paid ordinary shares of RM0.50 each:		
At 1 January	**129,441**	129,441
Issuance during the financial year arising from:		
– Option Plan	**100**	–
– Long Term Incentive Plan	**147**	–
At 31 December	**129,688**	129,441

Notes to the Financial Statements

29 SHARE BASED PAYMENTS

(a) Option Plan

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.

Movement 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 at exercise of RM5.04 each	
	2016 '000	**2015 '000**
At 1 January	**–**	–
Movements during the financial year:		
– Granted	**15,840**	–
– Exercised	**(200)**	–
At 31 December	**15,640**	–
Exercisable at 31 December	**3,018**	–

Notes to the Financial Statements

29 SHARE BASED PAYMENTS (CONTINUED)

(a) Option Plan (continued)

The fair value of the Option granted during the financial year was accounted for in accordance with MFRS 2 Share-based Payments, were determined using the Binomial valuation model. The significant inputs in the model are as follows:

Fair value per option	RM0.71
Exercise price	RM5.04
Option life	5 years
Weighted average share price at grant date	RM5.60
Expected dividend yield	5.38%
Risk free rate	3.49%
Expected volatility	15.00%

The amounts recognised in the financial statements is as disclosed in Notes 8 and 38(e) to the financial statements arising from the Option Plan granted to Directors and Eligible Employees.

(b) Long Term Incentive Plan

A Long Term Incentive Plan ("LTIP") was implemented on 13 May 2016 for the benefit of the Executive Director and Eligible Employees of the Group. The value of the allocation per year to the Executive Director and Eligible Employees under the LTIP shall not exceed 6% of the audited profit after tax of the Group for the preceding financial year.

Under the LTIP, the Executive Director and Eligible Employees are awarded with new ordinary share of RM0.50 each 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 2016, particulars of the shares granted under the LTIP were as follows:

		Number of ordinary shares of RM0.50 each				
Date of grant	**Fair value at grant date**	**At 1.1.2016**	**Granted**	**Vested**	**Lapsed**	**At 31.12.2016**
13 May 2016	RM5.36	–	894,000	(294,400)	(18,000)	581,600

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	RM5.60
Expected volatility	25.02% to 26.23%
Expected dividend yield	3.94%
Risk free rate	2.92% to 3.14%

Notes to the Financial Statements

30 RETAINED EARNINGS

Subject to the agreement by the Inland Revenue Board, the Company has tax exempt income to frank the payment of tax exempt dividends up to RM1,666,574 (2015: RM1,666,574).

31 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

		Group	
	Note	2016 RM'000	2015 RM'000
Deferred tax assets:			
– Deferred tax assets to be recovered after more than 12 months		**25,002**	23,826
– Deferred tax assets to be recovered within 12 months		**3,296**	435
		28,298	24,261
Deferred tax liabilities:			
– Deferred tax liabilities to be recovered after more than 12 months		**(45,771)**	(31,665)
– Deferred tax liabilities to be recovered within 12 months		**(2,334)**	(1,754)
		(48,105)	(33,419)
Deferred tax liabilities (net)		**(19,807)**	(9,158)
At beginning of financial year		**(9,158)**	(7,220)
Acquisition of a subsidiary	14	**(110)**	–
(Charged)/credited to income statement:			
– property, plant and equipment		**(732)**	(7,005)
– provisions		**995**	3,837
– unutilised tax losses		**1,763**	3,895
– intangible assets		**(12,959)**	(2,506)
	9	**(10,933)**	(1,779)
Foreign exchange adjustments		**394**	(159)
At end of financial year		**(19,807)**	(9,158)

Notes to the Financial Statements

31 DEFERRED TAXATION (CONTINUED)

	Group	
	2016 RM'000	**2015 RM'000**
Subject to income tax		
Deferred tax assets (before offsetting):		
– property, plant and equipment	**5,222**	3,671
– provisions	**18,450**	17,455
– unutilised tax losses	**13,670**	11,907
	37,342	33,033
Offsetting	**(9,044)**	(8,772)
Deferred tax assets (after offsetting)	**28,298**	24,261
Deferred tax liabilities (before offsetting):		
– property, plant and equipment	**(15,740)**	(13,741)
– intangible assets	**(41,409)**	(28,450)
	(57,149)	(42,191)
Offsetting	**9,044**	8,772
Deferred tax liabilities (after offsetting)	**(48,105)**	(33,419)

Notes to the Financial Statements

31 DEFERRED TAXATION (CONTINUED)

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Unutilised tax losses	**76,687**	70,972	**34,209**	35,034
Unabsorbed capital allowances	**1,826**	1,159	**–**	31
Deductible temporary differences	**1,872**	945	**1,416**	631
Reinvestment allowances	**5,487**	5,487	**–**	–
	85,872	78,563	**35,625**	35,696
Deferred tax assets not recognised at 24% (2015: 24%)	**20,609**	18,855	**8,550**	8,567

The deductible temporary differences, unabsorbed capital allowances and unutilised tax losses are available indefinitely for offset against future taxable profits of the Group and of the Company, subject to agreement with the Inland Revenue Board. These tax benefits will only be obtained if the Group and Company derive future assessable income of a nature and amount sufficient for the tax benefits to be utilised. Deferred tax assets have not been recognised in respect of the deductible temporary differences, unabsorbed capital allowances and unutilised tax losses of certain entities within the Group as these entities have a history of losses or are dormant.

Notes to the Financial Statements

32 PROVISION FOR DEFINED BENEFIT PLAN

The subsidiaries in Indonesia operate an unfunded defined benefit scheme for its employees based on the provisions of Labour Law No. 13/2003. The latest actuarial valuations of the plans were carried out on 17 November 2016 and 18 December 2016.

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

	Group	
	2016 RM'000	**2015 RM'000**
Present value of unfunded defined benefit obligations	**8,593**	7,501
Analysed as:		
Non-current	**8,593**	7,501
Actuarial losses recognised in the statements of comprehensive income	**(74)**	(201)
Cumulative actuarial losses recognised in the statements of comprehensive income	**(423)**	(349)

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

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**7,501**	6,213
Charged to income statement (Note 8)	**1,422**	1,214
Contributions paid during the financial year	**(1,062)**	(435)
Recognition of actuarial loss	**74**	201
Foreign exchange adjustments	**658**	308
At 31 December	**8,593**	7,501

Notes to the Financial Statements

32 PROVISION FOR DEFINED BENEFIT PLAN (CONTINUED)

The amounts recognised in the income statements are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Current service cost	**792**	680
Interest cost	**630**	534
Total included in employee benefit expenses (Note 8)	**1,422**	1,214

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

	Group	
	2016 %	**2015 %**
Discount rate	**8.0 to 8.5**	9.0
Expected rate of salary increase	**6.0 to 7.0**	7.0

33 AMOUNTS DUE FROM CUSTOMERS ON CONTRACTS

		Group	
	Note	**2016 RM'000**	**2015 RM'000**
Aggregate costs incurred to-date		**5,133**	6,712
Add: Attributable profits		**658**	2,832
		5,791	9,544
Less: Progress billings		**(5,783)**	(9,177)
Amounts due from customers on contracts	18	**8**	367
Contract revenue recognised during the financial year	4	**63,248**	68,973
Contract costs recognised as expense during the financial year	5	**62,644**	68,615

Included in contract costs incurred in the previous financial year was interest expense of RM6,546,000.

Notes to the Financial Statements

34 SEGMENTAL REPORTING

The Board of Directors is the Group's chief operating decision maker. Performance is measured based on identified two reportable segments' profit before interest and tax as management believes that such information is most relevant in evaluating the results of the segments.

For management purposes, the Group's business is organised into the following two reportable segments according to the internal reporting structure:

(a) Logistics and distribution - Distribution, trading and wholesaling of pharmaceutical and medical products as well as supply and installation of medical and hospital equipment in Malaysia and Indonesia. These two regions have been aggregated into one reportable segment as they have similar nature of business in terms of business processes.

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

Inter-segment revenues are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(a) Analysis by business segments

	Logistics and distribution RM'000	Manufacturing RM'000	Elimination RM'000	Total RM'000
Group				
2016				
Revenue				
External sales	**2,152,532**	**36,490**	**–**	**2,189,022**
Inter-segment sales	**9,743**	**383,380**	**(393,123)**	**–**
Total revenue	**2,162,275**	**419,870**	**(393,123)**	**2,189,022**
Results				
Segment results	**17,034**	**97,388**	**(9,740)**	**104,682**
Finance costs	**(33,255)**	**(1,501)**	**1,053**	**(33,703)**
Interest income	**1,401**	**690**	**(1,053)**	**1,038**
(Loss)/profit before zakat and taxation	**(14,820)**	**96,577**	**(9,740)**	**72,017**
Zakat				**(250)**
Taxation				**(25,908)**
Net profit for the financial year				**45,859**

Notes to the Financial Statements

34 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

	Logistics and distribution RM'000	Manufacturing RM'000	Elimination RM'000	Total RM'000
Group				
2016				
Other information				
Segment assets	**2,207,620**	**796,284**	**(1,320,794)**	**1,683,110**
Segment liabilities	**1,754,948**	**436,729**	**(1,067,974)**	**1,123,703**
Capital expenditure on property, plant and equipment and intangible assets	**68,676**	**40,730**	**–**	**109,406**
Depreciation of property, plant and equipment	**11,661**	**19,630**	**–**	**31,291**
Amortisation of prepaid lease payments	**51**	**82**	**–**	**133**
Amortisation of intangible assets	**12,327**	**2,181**	**–**	**14,508**
Non-cash expenses other than depreciation and amortisation	**13,089**	**4,298**	**–**	**17,387**

Notes to the Financial Statements

34 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

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

Notes to the Financial Statements

34 SEGMENTAL REPORTING (CONTINUED)

(a) Analysis by business segments (continued)

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

Notes to the Financial Statements

34 SEGMENTAL REPORTING (CONTINUED)

(b) Geographical information

	Revenue from external customers RM'000	Total non-current assets RM'000
Geographical markets		
2016		
Malaysia	**1,530,263**	**745,084**
Indonesia	**647,220**	**20,793**
Other countries	**11,539**	**–**
	2,189,022	**765,877**
2015		
Malaysia	1,666,344	673,583
Indonesia	510,401	19,337
Other countries	12,567	–
	2,189,312	692,920

Revenue is based on the country in which the customer is located.

Non-current assets information presented above consist of non-current assets other than financial instruments and deferred tax assets as presented in the consolidated statement of financial position.

Revenues of approximately RM1.5 billion (2015: 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 38(f).

Notes to the Financial Statements

35 CAPITAL COMMITMENTS

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

	Group	
	2016 **RM'000**	**2015** **RM'000**
Authorised and contracted for:		
– acquisition of property, plant and equipment	**39,199**	36,184
– acquisition of intangible assets	**532**	752
Authorised but not contracted for:		
– acquisition of property, plant and equipment	**2,190**	11,751
– acquisition of a subsidiary	**–**	3,500

36 CONTINGENT LIABILITIES – UNSECURED

(a) Following a final hearing of the claims made by E*HealthLine.com Inc. ("EHL") against Modern Industrial Investment Holding Group Company Ltd ("Modern") and Pharmaniaga Berhad ("Pharmaniaga") in April 2016 relating to a non-binding Memorandum of Collaboration which has lapsed, a Final Award was subsequently issued by the Tribunal on 2 November 2016. In the Final Award, the Tribunal dismissed all of EHL's claims against Modern and Pharmaniaga. The case is now closed.

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

	Group	
	2016 **RM'000**	**2015** **RM'000**
Bank performance and reimbursement bonds for concession business undertaken by a subsidiary	**45,000**	45,000
Bank guarantees for projects and utilities undertaken by subsidiaries	**45,317**	44,059

Notes to the Financial Statements

37 OPERATING LEASE OBLIGATION

Group as a lessee

The Group has several non-cancellable operating lease agreements for the use of equipment, land and buildings. These leases have an average lease period of between 2 to 5 years with renewal option included in the contracts.

	Group	
	2016 RM'000	**2015 RM'000**
Within 1 year	**4,896**	3,920
Later than 1 year but not later than 5 years	**5,643**	2,147
	10,539	6,067

38 SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group and the Company, if the Group and the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making any financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(a) Immediate holding company				
• Management fees	**306**	301	**161**	168
• Corporate and administrative support services	**1,140**	996	**–**	–

Notes to the Financial Statements

38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group	
	2016 RM'000	**2015 RM'000**
(b) Subsidiaries of the immediate holding company		
• Travelling and accommodation	**1,883**	1,893
• Rental of warehousing facilities	**–**	908
• Provision of warehousing services	**–**	1,076
• Provision of insurance	**668**	663
• Acquisition of a warehouse	**–**	23,320
• Freight forwarding and transportation services	**5,621**	2,804

	Company	
	2016 RM'000	**2015 RM'000**
(c) Subsidiaries		
• Interest income on advances to a subsidiary	**–**	400
• Dividend income from subsidiaries	**94,500**	65,000
• Management fees charged to subsidiaries	**10,576**	6,781
(d) Payment of expenses made on behalf:		
• by subsidiaries	**19,871**	3,232
• for subsidiaries	**(8,291)**	(9,494)

Notes to the Financial Statements

38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Remuneration of key management personnel

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Salaries, bonuses and allowances	**7,100**	6,988	**2,858**	1,735
Social contribution costs	**5**	5	**1**	1
Defined contribution plan	**1,074**	888	**385**	209
Estimated monetary value of benefits by way of usage of Group assets	**288**	265	**37**	52
Share-based expenses	**3,112**	–	**1,006**	–
Fee	**166**	228	**–**	–
	11,745	8,374	**4,287**	1,997

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

(f) Government-related entities

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

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

In prior financial year, PLSB entered into Supply Agreement with three (3) teaching hospitals under Ministry of Higher Education ("MOHE"), namely Universiti Sains Malaysia, Universiti Kebangsaan Malaysia and Universiti Malaya for the services of purchasing, storing, supplying and delivering to drugs and non-drugs. The Supply Agreement shall expire on 30 November 2019.

	Group	
	2016 RM'000	**2015 RM'000**
Sale of goods to MOH/MOHE	**1,450,126**	1,589,344
Amount due from MOH	**3,257**	5,018
Amount due from MOHE	**7,756**	10,603

Notes to the Financial Statements

38 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Significant outstanding balances

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amounts due from				
Subsidiaries	**–**	–	**236,264**	171,394
Amounts due to				
Immediate holding company	**472**	186	**74**	8
Subsidiaries	**–**	–	**209,019**	215,020
Related companies	**853**	1,396	**–**	–

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

39 SIGNIFICANT AND SUBSEQUENT EVENTS

(i) Significant event of the Group during the financial year is as follows:

On 22 March 2016, Pharmaniaga International Corporation Sdn. Bhd. ("Pharmaniaga Corp"), a wholly-owned subsidiary of Pharmaniaga Berhad had entered into a Share Sale and Purchase Agreement ("SSPA") with PT Dasar Technologi to acquire 383,328 ordinary shares (or 10% shareholding) in PT Errita Pharma ("Errita") for a total consideration of USD2,400,000 and Rp6,682,878,222. On the same date, PT Sinar Niaga Mujur, a limited liability company in the Republic of Indonesia entered into a similar agreement with PT Dasar Technologi to acquire PT Dasar Technologi's remaining 574,992 ordinary shares (or 15% shareholding) in Errita, for a total consideration of USD3,600,000 and Rp10,024,531,778. Consequently, Pharmaniaga's effective interest in PT Errita increased from 75% to 85%.

Notes to the Financial Statements

39 SIGNIFICANT AND SUBSEQUENT EVENTS (CONTINUED)

(ii) Subsequent event of the Group is as follows:

On 13 January 2017, Pharmaniaga Pristine Sdn. Bhd. ("PPSB"), a wholly-owned subsidiary, subscribed to the total issued and paid-up capital of Paradigm Industry Sdn. Bhd. ("PISB") of RM2.00.

PISB was incorporated on 25 July 2016 with an authorised share capital of RM400,000 comprising 400,000 ordinary shares of RM1.00 each and a paid-up capital of RM2.00 comprising 2 ordinary shares of RM1.00 each. Presently, PISB is dormant, but the intended principal activity is manufacturing and selling of food supplement. It is the intention that at a later date the paid-up capital of PISB to be increased to RM100,000 and that its shareholders to be PPSB (80%) and Sweetleaves Health Sdn. Bhd. (20%).

40 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group has a written risk management framework which sets out their overall business strategies, their tolerance to risk and has established processes to monitor and control the risks. Such framework is approved by the Board of Directors and quarterly reviews are undertaken as required.

Financial risk factors

(a) Market risk

(i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and IDR. Foreign currency exchange risk arises from current commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk causing from future commercial transactions and recognised assets and liabilities, the Group enters into contracts in Ringgit Malaysia denomination, where possible. Foreign currency exchange risk arises when current commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2016, if the functional currency had weakened/strengthened by 5% (2015: 5%) against US Dollar with all other variables held constant, post tax profit for the financial year would have been higher/lower by RM257,000 (2015: RM95,000), 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 2016, if the functional currency had weakened/strengthened by 5% (2015: 5%) against Euro with all other variables held constant, post tax profit for the financial year would have been lower/higher by RM142,000 (2015: RM71,000) mainly as a result of foreign exchange losses/gains on translation of Euro - denominated trade and other payables.

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

As at 31 December 2016, if the functional currency had weakened/strengthened by 5% (2015: Nil) against IDR with all other variables held constant, post tax profit for the financial year would have been higher/lower by RM122,000 (2015: Nil) mainly as a result of foreign exchange gains/losses on translation of IDR - denominated other receivables.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2016, if the functional currency had weakened/strengthened by 5% (2015: 5%) against the IDR with all other variables held constant, the impact on equity would have been approximately higher/lower by RM2,404,000 (2015: RM2,294,000) on translation upon consolidation. No impact to income statement as the financial assets and liabilities denominated in IDR are in respect of foreign subsidiaries where trade is conducted in the entity's functional currency.

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

	31.12.2016		
	US Dollar RM'000	**Euro RM'000**	**IDR RM'000**
Trade receivables	**3,173**	**–**	**–**
Other receivables	**14,742**	**–**	**3,218**
Deposits, cash and bank balances	**43**	**–**	**–**
Trade payables	**(11,151)**	**(3,414)**	**–**
Other payables	**(45)**	**(330)**	**–**
	6,762	**(3,744)**	**3,218**

	31.12.2015		
	US Dollar RM'000	**Euro RM'000**	**IDR RM'000**
Trade receivables	3,359	–	–
Deposits, cash and bank balances	7	–	–
Trade payables	(5,856)	(605)	–
Other payables	(52)	(1,277)	–
	(2,542)	(1,882)	–

Notes to the Financial Statements

40 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 2016, if interest rates on Ringgit Malaysia - denominated borrowings of the Group and the Company had been 50 (2015: 50) basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group and of the Company would have been RM1,974,000 (2015: RM1,396,000) and RM340,000 (2015: RM293,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

As at 31 December 2016, if interest rates on Indonesian Rupiah - denominated borrowings of the Group had been 50 (2015: 50) basis points lower/higher with all other variables held constant, post tax profit for the financial year of the Group would have been RM383,000 (2015: RM231,000) higher/lower respectively, mainly as a result of lower/higher interest expense.

The assumed movement in basis points for interest rate sensitivity analysis is based on a prudent estimate of the current market environment.

(b) Credit risk

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from credit exposures to customers, including outstanding receivables, as well as deposits, cash and bank balances.

For trade and other receivables, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. See Notes 18 and 19 for further disclosure on credit risk.

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(b) Credit risk (continued)

Credit quality of financial assets

Information regarding credit quality of trade and other receivables is disclosed in Notes 18 and 19 respectively. Deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's and the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times. Such forecasting takes into consideration the Group's and the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

The table below analyses the Group and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and will not reconcile to the amounts disclosed on the statements of financial position.

	Less than 3 months RM'000	Between 3 months and 1 year RM'000	Between 1 and 2 years RM'000	More than 2 years RM'000
Group				
At 31 December 2016				
Financial liabilities				
Loans and borrowings	**547,756**	**78,076**	**263**	**–**
Trade payables	**378,116**	**–**	**–**	**–**
Other payables	**63,788**	**–**	**547**	**–**
Amount due to immediate holding company	**472**	**–**	**–**	**–**
Amounts due to related companies	**853**	**–**	**–**	**–**
At 31 December 2015				
Financial liabilities				
Loans and borrowings	398,499	5,402	403	163
Trade payables	435,915	–	–	–
Other payables	51,193	–	–	–
Amount due to immediate holding company	186	–	–	–
Amounts due to related companies	1,396	–	–	–

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 3 months RM'000	Between 3 months and 1 year RM'000	Between 1 and 2 years RM'000	More than 2 years RM'000
Company				
At 31 December 2016				
Financial liabilities				
Loans and borrowings	**130,525**	**–**	**–**	**–**
Other payables	**3,314**	**–**	**547**	**–**
Amount due to immediate holding company	**74**	**–**	**–**	**–**
Amounts due to subsidiaries	**209,019**	**–**	**–**	**–**
At 31 December 2015				
Financial liabilities				
Loans and borrowings	80,335	–	–	–
Other payables	3,835	–	–	–
Amount due to immediate holding company	8	–	–	–
Amounts due to subsidiaries	215,020	–	–	–

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (continued)

(d) Financial instruments by category

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Financial assets				
Loans and receivables				
Trade receivables	**173,512**	157,248	**–**	–
Other receivables	**38,546**	7,670	**8,648**	79
Deposits, cash and bank balances	**70,456**	22,518	**377**	189
Amounts due from subsidiaries	**–**	–	**236,264**	171,394
Financial liabilities				
Liabilities at amortised cost				
Loans and borrowings	**616,912**	400,171	**130,000**	80,000
Trade payables	**378,116**	435,915	**–**	–
Other payables	**64,335**	51,193	**4,040**	3,865
Amount due to immediate holding company	**472**	186	**74**	8
Amounts due to related companies	**853**	1,396	**–**	–
Amounts due to subsidiaries	**–**	–	**209,019**	215,020

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total loans and borrowings divided by total capital.

Notes to the Financial Statements

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management (continued)

The gearing ratios are as follows:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total loans and borrowings (Note 27)	**616,912**	400,171	**130,000**	80,000
Total equity attributable to equity holders of the Company	**530,631**	529,409	**339,927**	305,864
Gearing ratio (times)	**1.2**	0.8	**0.4**	0.3

Under the terms of its borrowing facilities undertaken by the Group and the Company during the financial year, the Group and the Company are required to comply with the following financial covenants:

- The ratio of debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") is to be no more than 3 to 1;
- The ratio of EBITDA to interest expense is to be no less than 5 to 1;
- Current ratio of a minimum of 1.1;
- The interest-bearing debt over equity ratio of not more than 3; and
- The ratio of Debt Service Coverage is to be a minimum of 1.25.

Included within bankers' acceptances (unsecured) of the Group (Note 27) is RM14.6 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 2016, 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 2016.

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.

Notes to the Financial Statements

41 RECLASSIFICATION

The following comparatives have been reclassified in the current financial year to provide a better analysis of the basis and the nature of the reclassification.

	Group		
	As previously reported 2015 RM'000	Reclassification RM'000	As restated 2015 RM'000
Other receivables (Note 19):			
GST/VAT recoverable	18,214	11,190	29,404
Prepayments	21,710	(11,190)	10,520

The VAT recoverable relating to an Indonesian subsidiary had been reclassified to reflect the nature of transaction.

	Company		
	As previously reported 2015 RM'000	Reclassification RM'000	As restated 2015 RM'000
Amounts due from subsidiaries:			
Non-current	107,238	16,914	124,152
Current	64,156	(16,914)	47,242

The amounts due from subsidiaries had been reclassified to reflect the nature of the transaction.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2017.

Notes to the Financial Statements

43 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the context of disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained profits of the Company and its subsidiaries:				
– realised profits	**421,104**	411,380	**191,452**	164,672
– unrealised losses	**(20,341)**	(14,549)	**–**	–
	400,763	396,831	**191,452**	164,672
Less: Consolidation adjustments	**(35,226)**	(16,456)	**–**	–
Total retained profits	**365,537**	380,375	**191,452**	164,672

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

Other Compliance Information

RECURRENT RELATED PARTY TRANSACTIONS

At the 18th Annual General Meeting held on 29 March 2016, the Company obtained Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature. The information disclosed in accordance with Section 3.1.5 of Practice Note 12 of Bursa Malaysia Securities Berhad Listing Requirements are as follows:

Related party	Nature of transactions	Actual transactions RM'000
Boustead Holdings Berhad	Provision of corporate and administrative support services, internal audit function and training	1,446
Boustead Travel Services Sdn. Bhd.	Provision of travelling services	1,883

Tan Sri Dato' Seri Lodin Wok Kamaruddin, Dato' Farshila Emran and Daniel Ebinesan are deemed interested Directors/connected persons.

AUDIT AND NON-AUDIT FEES

The audit and non-audit fees below are also disclosed in the Audited Financial Statements set out under Note 7 to the Financial Statements on page 165 of this Annual Report.

Audit Fees	Company RM'000	Group RM'000
Audit fees paid to the External Auditors for the financial year ended 31 December 2016	192	720

Non-Audit Fees	Company RM'000	Group RM'000
Non-audit fees paid to the External Auditors for the financial year ended 31 December 2016	–	6

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 PROPOSALS

There were no corporate proposals during the financial year ended 31 December 2016.

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 2016 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 Options	Options to Directors
Granted	15,840,000	13,800,000
Exercised	(200,000)	(200,000)
Outstanding	15,640,000	13,600,000

LTIP

Ordinary Share of RM0.50	Grand Total of Shares	Shares to Executive Director
Granted	894,000	126,000
Vested	(294,400)	(42,000)
Lapsed	(18,000)	–

During the financial year, all shares under the Option Plan and LTIP were granted to Directors and selected Senior Management Officers.

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

Non-Executive Directors	Amount of options granted	Amount of options exercised
Tan Sri Dato' Seri Lodin Wok Kamaruddin	3,800,000	–
Daniel Ebinesan	2,000,000	200,000
Mohd Suffian Haji Haron	2,000,000	–
Izzat Othman	2,000,000	–
Lieutenant General Dato' Seri Panglima Dr Sulaiman Abdullah (R)	2,000,000	–

Analysis of Shareholdings

As at 15 February 2017

SHARE CAPITAL

Authorised Share Capital	:	RM300,000,000.00 divided into 600,000,000 ordinary shares of RM0.50 each
Issued and Paid Up Share Capital	:	RM129,688,566.00 divided into 259,377,132 ordinary shares of RM0.50 each
Class of Shares	:	Ordinary shares of RM0.50 each
Voting Rights	:	One vote per ordinary share held

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Share Capital
Less than 100	813	14.67	16,728	0.01
100 to 1,000	2,200	39.71	1,025,280	0.39
1,001 to 10,000	2,063	37.23	7,051,002	2.72
10,001 to 100,000	393	7.09	9,837,913	3.79
100,001 to less than 5% of Issued Shares	70	1.26	69,271,010	26.71
5% and above of Issued Shares	2	0.04	172,175,199	66.38
TOTAL	5,541	100.00	259,377,132	100.00

30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
1	Boustead Holdings Berhad *Account Non-Trading*	146,110,415	56.33
2	Lembaga Tabung Angkatan Tentera	26,064,784	10.05
3	Lembaga Tabung Haji	10,000,000	3.86
4	Valuecap Sdn Bhd	6,345,100	2.45
5	Cimsec Nominees (Tempatan) Sdn Bhd *CIMB Bank for Che Lodin bin Wok Kamaruddin (PBCL-0G0052)*	6,334,883	2.44
6	Che Lodin bin Wok Kamaruddin	6,165,265	2.38
7	Citigroup Nominees (Tempatan) Sdn Bhd *Employees Provident Fund Board*	5,053,600	1.95
8	Kumpulan Wang Persaraan (Di Perbadankan)	3,569,700	1.38

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
9	Citigroup Nominees (Asing) Sdn Bhd *Exempt an for CitiBank New York (Norges Bank 14)*	3,111,000	1.20
10	CIMB Group Nominees (Tempatan) Sdn Bhd *Yayasan Hasanah (Aur-Vcam)*	3,010,200	1.16
11	Dasar Technologies Sdn Bhd	2,200,000	0.85
12	Maybank Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Au Kwan Seng*	1,785,100	0.69
13	Amanahraya Trustees Berhad *Public Islamic Treasures Growth Fund*	1,774,700	0.68
14	Amanahraya Trustees Berhad *Public Islamic Sector Select Fund*	1,323,100	0.51
15	Amanahraya Trustees Berhad *Public Islamic Opportunities Fund*	1,053,600	0.41
16	Citigroup Nominees (Tempatan) Sdn Bhd *Kumpulan Wang Persaraan (Di Perbadankan) (VCAM Equity FD)*	1,002,100	0.39
17	Chinchoo Investment Sdn. Berhad	913,149	0.35
18	Amanahraya Trustees Berhad *Public Strategic Smallcap Fund*	828,100	0.32
19	Yong Siew Yoon	811,364	0.31
20	Citigroup Nominees (Asing) Sdn Bhd *CBNY for DFA Emerging Markets Small Cap Series*	709,060	0.27
21	Gan Teng Siew Realty Sdn.Berhad	657,564	0.25
22	Affin Hwang Nominees (Tempatan) Sdn. Bhd. *Yayasan Warisan Perajurit*	596,200	0.23
23	Public Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Au Kwan Seng (E-KLC)*	569,800	0.22
24	Citigroup Nominees (Asing) Sdn Bhd CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	541,580	0.20
25	Key Development Sdn.Berhad	531,759	0.20
26	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Asianislamic)	489,900	0.19
27	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (CIMB-P 6939-404)	468,500	0.18
28	Gemas Bahru Estates Sdn. Bhd.	432,588	0.17
29	CIMB Group Nominees (Tempatan) Sdn Bhd Aiiman Asset Management Sdn Bhd for Lembaga Tabung Haji	415,000	0.16
30	Bidor Tahan Estates Sdn.Bhd.	400,600	0.15
	Total	**233,268,711**	**89.93**

Analysis of Shareholdings

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

		No. of Shares Held			
No.	Name of Substantial Shareholders	Direct	%	Indirect	%
1	Boustead Holdings Berhad *Account Non-Trading*	146,110,415	56.33	–	–
2	Lembaga Tabung Angkatan Tentera	26,064,784	10.05	–	–

DIRECTORS' SHAREHOLDING (as per the Register of Directors' Shareholding)

		No. of Shares Held in Pharmaniaga Berhad			
No.	Name of Directors	Direct	%	Indirect	%
1	Che Lodin bin Wok Kamaruddin	6,165,265	2.38	–	–
2	CIMSEC Nominees (Tempatan) Sdn Bhd	6,334,883	2.44	–	–
	CIMB Bank for Che Lodin bin Wok Kamaruddin (PBCL-0G0052)				
3	CIMSEC Nominees (Tempatan) Sdn Bhd	200,000	0.08	–	–
	CIMB Bank for Ebinesan @ Daniel a/l Gnanakkan (PBCL-0G0048)				
4	CIMSEC Nominees (Tempatan) Sdn Bhd	200,000	0.08	–	–
	CIMB Bank for Ebinesan @ Daniel a/l Gnanakkan (PBCL-0G0268)				
5	CIMSEC Nominees (Tempatan) Sdn Bhd				
	CIMB for Ebinesan @ Daniel a/l Gnanakkan (PB)	200,000	0.08	–	–
6	Farshila binti Emran	129,000	0.05	–	–

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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
1	Lot PT 46016, HS (D) 87359 Mukim of Kapar, Klang, Selangor Darul Ehsan **Industrial Premises:** No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	A parcel of industrial land with a detached industrial building comprising a 3-storey office annexed at the front, a single storey office building, automated storage retrieval system (ASRS) warehouse, a surau, a guard house and an inflammable store	23,594	Freehold	22	25,469	14 March 2005
2	Lot PT 46016, HS (D) 87359 Mukim of Kapar, Klang, Selangor Darul Ehsan **Industrial Premises:** No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	A parcel of industrial land with a single storey laboratory building, chiller and a guard house	17,414	Freehold	19	14,225	14 March 2005
3	HS (D) 145264, PT 70920, Mukim of Kapar, Klang, Selangor Darul Ehsan **Shoplot:** No. 25, Jalan Keluli 7/109, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	3-storey shoplot	277	Freehold	2	3,428	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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
4	HS (D) 145263, PT 70919, Mukim of Kapar, Klang, Selangor Darul Ehsan Shoplot: No. 23, Jalan Keluli 7/109, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan	3-storey shoplot	183	Freehold	2	1,986	3 October 2014
5	HS (D) 22385 PT49, Seksyen 15, Bandar Shah Alam, Daerah Petaling, Selangor Darul Ehsan Industrial Premises: No. 11, Jalan Ragum 15/17, Seksyen 15, 40200 Shah Alam, Selangor Darul Ehsan	A parcel of Industrial land presently built upon with a single storey warehouse with 2 storey office annexed and a guard house	11,762	Leasehold of 99 years expiring on 12 January 2086	1	22,168	9 September 2015
6	Geran 44309 of Lot 7, Mukim Pekan Puchong Perdana, Daerah Petaling, Selangor Darul Ehsan Factory: No 7, Jalan PPU 3, Taman Perindustrian Puchong Utama, 47100 Puchong, Selangor Darul Ehsan	An industrial land with a main 2-storey detached factory industrial building with a 3-storey office/ laboratory section at the back and a single storey warehouse section at the front, a cafeteria/surau building, a fire pump room/cold water pump room, an inflammable store/refuse chamber, chiller, boiler house, waste water treatment and a guard house	28,041	Freehold	16	56,408	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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
7	Lot PT 1157, HS (M) 9726, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan Factory: No. 11A, Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	A parcel of industrial land with 3 industrial buildings, an office/ workshop, a canteen, chiller, boiler house, waste water treatment, a TNB sub-station and a guard house	12,141	Leasehold of 99 years, expiring on 29 September 2086	31	13,728	28 August 1991
8	Lot 1024, Block 7, Muara Tebas Land, District of Kuching, Sarawak Industrial Premises: Lot 1024, Block 7, Muara Tebas Land District, Demak Laut Industrial Park, 93050 Kuching, Sarawak	A parcel of industrial land with a 2-storey office, a warehouse and a guard house	6,560	Leasehold of 60 years, expiring on 15 August 2056	20	6,283	3 November 2004
9	Country Lease 015377554, Kota Kinabalu, Sabah Industrial Premises: Lorong Kurma, Kolombong Industrial Centre, KM 9, Off Jalan Tuaran 88450 Kolombong Kota Kinabalu, Sabah	A parcel of industrial land with a 2-storey office, warehouse and a guard house	7,851	Leasehold of 66 years, expiring on 21 December 2033	14	3,331	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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
10	HS (M) 1479, HS (M) 1480 and HS (M) 1481, Lot No. 3806, 3807 and 3808, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang Industrial Premises: No. 1,3 & 5, Lorong IKS Juru 8, Taman Perindustrian Ringan Juru, 14100 Simpang Ampat, Seberang Perai, Pulau Pinang	3 contiguous 11/2 semi-detached warehouses with office	2,175	Freehold	19	1,017	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	23	*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	23	*0	11 June 1993
13	Lot PT 10908, HS (M) 9124, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan House: No. 5, Jalan 4/4E, Section 4 43650 Bandar Baru Bangi, Selangor Darul Ehsan	2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	30	*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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
14	Lot PR 10911, HS (M) 9127, Mukim of Kajang, Hulu Langat, Selangor Darul Ehsan House: No 11, Jalan 4/4E, Section 4, 43650 Bandar Baru Bangi, Selangor Darul Ehsan	2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	30	*0	4 September 1987
15	Lot 0111111, No. HM 144/1977 & Lot PT 0000102, No. HM 237/1984, Mukim Sungai Pasir, Sungai Petani, Kedah Darul Aman Factory: Lot 24 & 25, Jalan Perusahaan 8, Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah Darul Aman	A parcel of industrial land with a 2-storey office, guard house, manufacturing block, warehouse block, flammable store, chiller, boiler house, purified water system and waste water treatment	40,469	Leasehold of 99 years, expiring on 1 January 2083	39	15,230	6 March 2005
16	Lot 276, 277 & 278, District of Mukim of Bandar Seri Iskandar, Perak Tengah, Perak Darul Ridzuan Factory: Lot 120, Taman Farmaseutikal, 32610 Bandar Seri Iskandar, Perak Darul Ridzuan	A parcel of building land built upon a defected industrial building with a 2–storey office building, prayer room, canteen, warehouse, penicillin and non penicillin production plant buildings, laboratory building, chiller, boiler house, TNB sub-station, waste water treatment and a guard house	60,737	Leasehold of 99 years, expiring on 13 March 2100	20	28,404	1 June 2009

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 31/12/2016 (RM'000)	Date of Revaluation / Acquisition
17	Blok D, 20 & 21, Ruko Grand Mal, Bekasi, Jakarta, Indonesia	Shop lots	453	Freehold 15 years to 24 September 2013 (in progress for renewal)	14	95	13 October 2003
18	Jalan Depsos, 67 – 70 Bintaro, Jaksel, Jakarta, Indonesia	Office and warehouse	1,860	Freehold 30 years to 7 July 2028	17	947	14 January 1999 Revaluation 2001
19	Jalan Kalibokor Selatan, 152 Surabaya, Indonesia	Office and warehouse	1,133	Leasehold 5 years to 24 July 2016 (in progress for renewal)	35	49	4 November 1971 Revaluation 2001
20	Jalan Hayam Wuruk I No.45, Bandar Lampung, Indonesia	Office and warehouse	1,072	Freehold 20 years to 17 November 2036	0	862	10 November 2016
21	Jalan Peundeuy, RT/RW 04/07, Desa Bojongsalam Kecamatan Rancaekek, Kabupaten Bandung, Indonesia	An industrial land with office, warehouse, guard house and electricity sub-station	16,492	Leasehold of 30 years to 01 October 2043	32	9,457	8 May 1994

* Below RM500

Group Corporate Directory

List of Companies	Address
Pharmaniaga Berhad **Pharmaniaga Logistics Sdn Bhd** **Pharmaniaga Marketing Sdn Bhd** **Pharmaniaga Research Centre Sdn Bhd** **Pharmaniaga Pristine Sdn Bhd** **Pharmaniaga Biomedical Sdn Bhd** **Pharmaniaga International Corporation Sdn Bhd**	No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan Tel : +603-3342 9999 Fax : +603-3341 7777 **Mailing Address:** P.O. Box 2030, Pusat Bisnes Bukit Raja, 40800 Shah Alam, Selangor Darul Ehsan
Pharmaniaga Manufacturing Berhad	No. 11A, Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan Tel : +603-8925 7880 Fax : +603-8925 6177
Idaman Pharma Manufacturing Sdn Bhd (Sungai Petani Branch)	Lot No. 24 & 25, Jalan Perusahaan 8, Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah Darul Aman Tel : +604-4213 011 Fax : +604-4215 731
Idaman Pharma Manufacturing Sdn Bhd (Seri Iskandar Branch)	Lot 120, Taman Farmaseutikal, 32610 Bandar Seri Iskandar, Perak Darul Ridzuan Tel : +605-371 2020 Fax : +605-371 1940/1950
Pharmaniaga LifeScience Sdn Bhd	Lot 7, Jalan PPU 3, Taman Perindustrian Puchong Utama, 47100 Puchong, Selangor Darul Ehsan Tel : +603-8061 2006 Fax : +603-8061 2875
Bio-Collagen Technologies Sdn Bhd	No. 11, Jalan Perindustrian Balakong Jaya 2/3, Taman Perindustrian Balakong Jaya 2, 43300 Seri Kembangan, Selangor Darul Ehsan Tel : +603-8959 9710 Fax : +603-8945 9910

Group Corporate Directory

List of Companies	Address
Pharmaniaga Logistics Sdn Bhd (Juru Branch)	1, 3 & 5, Lorong IKS Juru 8, Taman Perindustrian Ringan Juru, 14100 Simpang Ampat, Seberang Prai, Pulau Pinang Tel : +604-508 3330/1/2 Fax : +604-508 3111
Pharmaniaga Logistics Sdn Bhd (Kuching Branch)	Lot 1024, Block 7, Muara Tebas Land District, Demak Laut Industrial Park, 93050 Kuching, Sarawak Tel : +6082-432 800 Fax : +6082-432 806
Pharmaniaga Logistics Sdn Bhd (Kota Kinabalu Branch)	Lorong Kurma, Kolombong Industrial Centre, KM 9 Off Jalan Tuaran, 88450 Kolombong, Kota Kinabalu, Sabah Tel : +6088-439 188 Fax : +6088-437 288
PT Millennium Pharmacon International Tbk (HQ)	Panin Bank Centre, 9th Floor, Jl. Jenderal Sudirman, Senayan, Jakarta, 10270 Indonesia Tel : +62-21 727 88906/7 Fax : +62-21 722 8090
PT Mega Pharmaniaga (Jakarta)	Komplek Perkantoran Graha Elok Mas, Blok HH, No. 83, Jl. Panjang, Kebon Jeruk, Jakarta, 11510 Indonesia Tel : +62-21 295 08987 Fax : +62-21 295 08988
PT Errita Pharma (Bandung)	Jalan Peundeuy, RT/RW 04/07, Desa Bojongsalam, Kecamatan Rancaekek, Kabupaten Bandung, Indonesia Tel : +62-22 794 9062/7949064 Fax : +62-22 794 9063

Notice of
Annual General Meeting

NOTICE IS HEREBY GIVEN that the Nineteenth Annual General Meeting of Pharmaniaga Berhad (467709-M) (the Company) will be held at The Royale Chulan Damansara Hotel, Mutiara Ballroom, Ground Floor, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 6 April 2017 at 9.00 a.m. for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors. **[Please refer to Note (a)]**

2. To re-elect Lieutenant General Dato' Seri Panglima Dr Sulaiman bin Abdullah (Retired), who retires by rotation in accordance with Article 88 of the Company's Articles of Association as Director of the Company. **Resolution 1**

3. To re-appoint the following Directors of the Company:

   i. Mohd Suffian bin Haji Haron **Resolution 2**

   ii. Daniel Ebinesan **Resolution 3**

4. To approve the payment of Directors' Fees amounting to RM532,000 for the financial year ended 31 December 2016. **Resolution 4**

5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration. **Resolution 5**

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, with or without modifications:

6. **Ordinary Resolution**
   Authority to Allot and Issue Shares in General Pursuant to Sections 75 and 76 of the Companies Act, 2016 **Resolution 6**

   "THAT pursuant to Sections 75 and 76 of the Companies Act, 2016 and subject to the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the capital of the Company from time to time and upon such terms and conditions and for such purposes as the Directors, may in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are hereby also empowered to obtain approval from the Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

Notice of Annual General Meeting

7. Ordinary Resolution
Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions **Resolution 7**

"THAT, subject to the Companies Act, 2016 (Act), the Memorandum and Articles of Association of the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its Subsidiaries (Pharmaniaga Group) to enter into all transactions involving the Related Parties as specified in Section 2.2 of the Circular to Shareholders dated 15 March 2017 provided that such transactions are:

i. recurrent transactions of a revenue or trading nature;

ii. necessary for the day-to-day operations;

iii. carried out in the ordinary course of business on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and

iv. are not to the detriment of the minority shareholders.

AND THAT such approval shall continue to be in force until:

i. the conclusion of the next Annual General Meeting (AGM), at which time it will lapse, unless by a resolution passed at the said AGM, such authority is renewed;

ii. the expiration of the period within the next AGM of the Company is required to be held pursuant to Section 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 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' the Mandate."

8. To transact any other ordinary business of the Company.

By Order of the Board

TASNEEM MOHD DAHALAN (LS 0006966)
Secretary

Kuala Lumpur
15 March 2017

Notes

(a) 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, not put forward for voting.

(b) With the coming into force the Companies Act 2016 on 31 January 2017, there is no age limit for directors.

At the 18th Annual General Meeting of the Company held on 29 March 2016, both Mohd Suffian bin Haji Haron and Daniel Ebinesan, who are above the age of 70, were reappointed pursuant to Section 129 of the Companies Act, 1965 to hold office until the conclusion of the 19th Annual General Meeting. Their term of office will end at the conclusion of the 19th Annual General Meeting and they have offered themselves for re-appointment.

The proposed Ordinary Resolutions 2 and 3, if passed, will enable both Mohd Suffian bin Haji Haron and Daniel Ebinesan to continue to act as Directors of the Company and they shall subject to retirement by rotation at a later date.

The Nomination Committee ("NC") of the Company has assessed the criteria and contribution of Mohd Suffian bin Haji Haron and Daniel Ebinesan and recommended for their re-appointment. The Board has endorsed the NC's recommendation that Mohd Suffian bin Haji Haron and Daniel Ebinesan be re-appointed as Directors of the Company.

(c) The proposed ordinary resolution 6, if passed, will give powers to the Directors to issue up to a maximum of 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company. This authority will, unless revoked or varied by the Company in a General Meeting, expire at the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting required by law to be held, whichever is earlier. The mandate sought is a renewal of the existing mandate.

The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

As at the date of this Notice, no new shares were issued pursuant to the authority granted to the Directors at the 18th Annual General Meeting held on 29 March 2016, the mandate of which will lapse at the conclusion of the 19th Annual General Meeting to be held on 6 April 2017. However, 494,400 new shares in the Company were issued pursuant to Shareholders' approval granted at the Extraordinary General Meeting held on 29 March 2016, in relation to the Share Scheme.

(d) The proposed ordinary resolution 7, if passed, will enable the Company and/or its Subsidiaries to enter into recurrent transactions involving the interests of Related Parties, which are of a revenue or trading nature and necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business and on terms not to the detriment of the minority shareholders of the Company. The authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

(e) A member of Pharmaniaga Berhad entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him. A proxy may but need not be a member of Pharmaniaga Berhad and a member may appoint any person to be his proxy. The instrument appointing a proxy must be lodged at the Share Registrar's Office, Tricor Investor & Issuing House Services Sdn Bhd located at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 48 hours before the time of the Meeting or adjourned meeting at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

(f) Only members registered in the Record of Depositors as at 28 March 2017 shall be eligible to attend the meeting or appoint a proxy to attend and vote on his/her behalf.

(g) If a member has appointed a proxy to attend a general meeting and subsequently attends such general meeting in person, the appointment of such proxy shall be null and void, and his proxy shall not be entitled to attend the said general meeting.

(h) Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice shall be put to vote by poll.

Statement Accompanying
Notice of Annual General Meeting

1 **Directors who are standing for re-election and re-appointment at the Annual General Meeting**

a. Director standing for re-election pursuant to Article 88 of the Company's Articles of Association:

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

b. Directors standing for re-appointment:

i. Mohd Suffian bin Haji Haron
ii. Daniel Ebinesan

Details of attendance of Board Meetings and profile of Directors standing for re-election and re-appointment are set out on pages 18,19 and 21 of this Annual Report, while details of their interest in securities are set out on page 232 of this Annual Report.

2 **Date, time and place of the Annual General Meeting**

The Nineteenth Annual General Meeting of Pharmaniaga Berhad will be held as follows:-

Date	:	Thursday, 6 April 2017
Time	:	9.00 a.m.
Place	:	The Royale Chulan Damansara Hotel Mutiara Ballroom, Ground Floor No. 2, Jalan PJU 7/3, Mutiara Damansara 47810 Petaling Jaya Selangor Darul Ehsan

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Proxy Form

pharmaniaga (467709-M)
Annual Report 2016 (Incorporated in Malaysia)

I/We ____ NRIC (New)/Company No.: ___________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ____
(FULL ADDRESS)

being a member/members of **PHARMANIAGA BERHAD**, hereby appoint *____

____ NRIC (New) No.: ___________________________________
(INSERT FULL NAME IN BLOCK CAPITAL)

of ____
(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as *my/our proxy to attend and vote for *me/us on *my/our behalf at the Nineteenth Annual General Meeting of the Company to be held at The Royale Chulan Damansara Hotel, Mutiara Ballroom, Ground Floor, No.2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 6 April 2017 at 9.00 a.m. and at any adjournment thereof, to vote as indicated below:

No.	Resolution	For	Against
1.	To re-elect Lieutenant General Dato' Seri Panglima Dr Sulaiman bin Abdullah (Retired)		
2.	To re-appoint Mohd Suffian bin Haji Haron		
3.	To re-appoint Daniel Ebinesan		
4.	To approve payment of Directors' Fees		
5.	To re-appoint Messrs. PricewaterhouseCoopers as Auditors		
6.	Ordinary Resolution Authority to Directors to Allot and Issue Shares in General Pursuant to the Companies Act, 2016		
7.	Ordinary Resolution Renewal of Shareholders' Mandate for Recurrent Related Party Transactions		

Dated this __________ day of __________ 2017

____
Signature of Member

No. of ordinary shares held:
CDS Account No.:
Contact No.:

NOTES :

1. A member of the Company entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him/her. If you wish to appoint as a proxy some person other than the Chairman of the Meeting, please insert in block letters the full name, address and NRIC No. of the person of your choice and at the same time deleting the words "the Chairman of the Meeting". A proxy need not be a member of the Company but must attend the Meeting in person to vote. Please indicate with an "X" in the appropriate box how you wish your vote to be cast in respect of each Resolution.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, signed by its attorney or by an officer on behalf of the corporation.

3. Where a Member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account (omnibus account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respects of each omnibus account it holds.

4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, shall be deposited at the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A,Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, at least 48 hours before the time for holding the Meeting or adjourned Meeting at which the person or persons named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. The Annual Report and Proxy Form are available for access and download at the Company's website at www.pharmaniaga.com

5. Only members registered in the Record of Depositors as at 28 March 2017 shall be eligible to attend the Meeting or appoint a proxy to attend and vote on his/her behalf.

6. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice shall be put to vote by poll.

7. By submitting the proxy form, the member consents to the Company (and/or its agents/service providers) collecting, using and disclosing the personal data therein in accordance with the Personal Data Protection Act 2010, for the purpose of the Annual General Meeting, including any adjournment thereof.

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Share Registrar of **Pharmaniaga Berhad**

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

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PHARMANIAGA BERHAD 467709-M
No. 7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan
Malaysia

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www.pharmaniaga.com