

Our Ref : PHARMA/SD/PB/RCKL/LOU/2022/213/FWM
Date : 10 June 2022

Minority Shareholder Watchdog Group
Level 23, Unit 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur.

(Attn : Mr. Devanesan Evanson, Chief Executive Officer)

**24th ANNUAL GENERAL MEETING (AGM) OF PHARMANIAGA BERHAD (Pharmaniaga)
TO BE HELD ON 13 JUNE 2022**

We thank you for your letter which was received via email on 3 June 2022. Our response to your enquiries are set out below:

Operational and Financial Matters

1. The Company achieved its highest net profit in FYE 2021 when its net profit increased almost six-fold to RM172.2 million from RM26.3 million in FYE 2020. The stellar performance of the Company was mainly due to its provision of nearly 23 million doses of Sinovac COVID-19 vaccine to the Government and the private sector in FYE 2021 (Page 30 of AR 2021)

Given that the pandemic was a “Black Swan” event, what are the measures that will be taken by the Company to supplement the loss of revenue from the provision of vaccines as the pandemic enters the endemic stage and as demand wanes?

Our response:

As many countries are taking measures to normalise business and relax some of its COVID-19 restrictions, the Malaysian and Indonesian pharmaceutical industry have also started normalising. Pharmaniaga is moving in tandem with the industry to accelerate the growth of our core businesses, which are logistics and distribution, private sector, consumer healthcare and in particular our Indonesia operations.

2021 saw us attaining exceptional performance from the supply of COVID-19 products and PPE. It gave us an opportunity to accelerate the growth of our biopharmaceutical strategy in Halal vaccine and insulin.

2. The Company plans to set up the world's first halal vaccine plant in 2023 to tap into the burgeoning halal vaccine market. (Page 30 of AR 2021)

a) What is the cost of this plant?

Our response:

The estimated cost of the world's first Halal vaccine plant is approximately RM200 million.

b) When will the plant be operational?

Our response:

Commercial production is targeted to commence in 2024.

c) What is the expected capacity of this plant?

Our response:

The capacity of the plant is:

- 30 million pre-filled syringes per annum and
- 20 million vials per annum

3. The Company successfully registered 23 Halal certified products in FYE 2021 thus bringing its total of Halal certified products to 184. Given the Halal market is a huge market, the Company's foray into this area may reap huge benefits to the Company. (Page 56 of SR 2021)

a) What was the cost for developing the 23 Halal registered products in FYE 2021?

Our response:

The cost of investment for Halal pharmaceutical covers a wider spectrum spanning across Research & Development to sourcing of materials, Manufacturing as well as Logistics and Distribution. On average, each of our products takes around three years to develop. Thus, the product cost would vary from one product to another depending on the complexity of the molecules.

The overall cost of R&D of our products accounts for approximately 10% of our total manufacturing revenue.

b) What are the Company's strategies to develop halal products and penetrate further into the Halal market?

Our response:

All products under development at Pharmaniaga are Halal certifiable. We strategically develop high quality, cost competitive and first to launch generic pharmaceutical products. Our compliance to Halal standard gives Pharmaniaga a unique selling proposition in local and international markets.

4. Research & Development (R&D) is vital for a pharmaceutical Company and Pharmaniaga continually makes investments into this area as the leading integrated pharmaceutical player in the country.

a) What was the Company's R&D expenses in FYE 2021?

Our response:

The Company spent approximately RM22 million on R&D in 2021.

b) What is the allocated amount for R&D expenses for FYE 2022?

Our response:

For FYE 2022, we are targeting approximately 10% of our total manufacturing revenue for R&D.

5. The agreement between the Malaysian Government and the Company to provide medicines to the Ministry of Health expires on 31 December 2022.

a) Has the Government indicated an intention to extend the agreement?

Our response:

Pharmaniaga has received the Letter of Intent for the new Contract to cover a period of 10 years. We are in the midst of finalising the terms and conditions for the new Contract.

b) Does the Company have any contingency plans if the Government does not extend the agreement as this could have a very negative impact to the profitability of the Company?

Our response:

The pharmaceutical industry is highly regulated, especially in manufacturing, logistics and distribution. With our excellent proven track record for the last 28 years in delivering high quality services, we are confident that the Government will continue to choose us as their trusted and preferred business partner.

Corporate Governance Matters

6. Practise 5.2 – At least half of the Board should comprise Independent Directors.

Pharmaniaga's response: Applied (page 29 of the CG Report FYE 2021)

MSWG's comment: As at the end of FYE 2021, only 4 out of 9 Directors or 44% were Independent Directors and this is not in line with Practise 5.2

Does the Company plan to apply Practise 5.2 and if yes, by when?

Our response:

Pharmaniaga is not considered as a Large Company defined under the Malaysian Code on Corporate Governance hence there is no need to comply with the 50% policy.

However, in ensuring an effective and well-balanced Board, the Company will work towards building all-rounder Board soon by appointing Independent Directors that welcome innovation and change, digitally minded, optimistic, inclusive and proactive regardless of race and ethnicity.

Should there be any further enquiries or clarification, please do not hesitate to contact our Puan Wan Intan Idura Wan Ismail (idura@pharmaniaga.com) or Encik Syaruzaimi Yusof (syaruzaimi@pharmaniaga.com) at 03-3342 9999 ext. 262.

Thank you.

Yours faithfully,
For and on behalf of,

PHARMANIAGA BERHAD



DATUK ZULKARNAIN MD EUSOPE
Managing Director