APEX HEALTHCARE BERHAD
(Registration No. 199801016979 [473108-T])

SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-FIRST ANNUAL GENERAL MEETING ("AGM") OF THE COMPANY HELD AND CONDUCTED ENTIRELY ON A VIRTUAL BASIS AT THE BROADCAST VENUE AT 12TH FLOOR, MENARA SYMPHONY, NO. 5 JALAN PROF. KHOO KAY KIM, SEKSYEN 13, 46200 PETALING JAYA, SELANGOR DARUL EHSAN, MALAYSIA ON MONDAY, 13TH JULY 2020 AT 2:00 P.M.

PRESENT:-

DIRECTORS

Datuk Phang Ah Tong (Chairman of the Meeting)
- Independent Non-Executive Director and also a shareholder and proxyholder

[1] Dr. Kee Kirk Chin
- Chairman and Chief Executive Officer ("**CEO**")

[1] Mr Robert Dobson Millner
- Non-Independent Non-Executive Director

[1] Datuk Noharuddin Bin Nordin @ Harun
- Senior Independent Non-Executive Director

[1] Ms Heng Su-Ling Mae
- Independent Non-Executive Director

[1] Mr Jackson Chevalier Yap-Kit-Siong
- Independent Non-Executive Director

[1] Mr Kee Kirk Chuen
- Non-Independent Non-Executive Director

IN ATTENDANCE

Ms Chan Yoke Peng	-	Company Secretary
Ms Chiew Woon Wui	-	Financial Controller
Mr Tan Hing Tai	-	Chief Operating Officer
Mr Ch'ng Kien Peng	-	Senior Vice President
[1] Mr Edwin Francis	-	Messrs Ernst & Young PLT
[1] Mr Yip Zhi Hoe	-	Messrs Ernst & Young PLT

BY INVITATION

Mr Leighton Kee	-	Deputy General Manager, Corporate Services
Ms Wong Mei Ling	-	Vice President, Corporate Affairs
Ms Tan Ping Sin	-	Boardroom Corporate Services Sdn. Bhd.
Mr Raymond Wong	-	Boardroom Corporate Services Sdn. Bhd.

Note:-
[1] Participated via online platform at https://web.lumiagm.com

KEY MATTER DISCUSSED

(1) What were the main drivers of revenue growth in 2019?

The Group's revenue grew 5.5% to RM688 million in 2019. 30% was from the sale of products under the Group Brands, 49% from Agency Brands which the Group represents and 21% from General Brands which the Group trades. There are in total eight Group Brands and the top three were XEPA and AVO PHARMA (generic pharmaceutical products) and AGNESIA (consumer healthcare products). For Agency Brands, the Group represents 53 pharmaceutical and consumer healthcare companies. The top three were Nestle Health Science for nutritionals, Merck Serono for fertility & oncology drugs; and Kyowa Kirin for biosimilars that treat blood disorders. In 2019, revenue growth was consistent across all key business units, with improved sales particularly to the public sector and in the volume of contract manufacturing and distribution services.

(2) Despite revenue growth, why did Profit before Tax ("PBT") decline? And why did Profit after Tax ("PAT") decline more than PBT?

In 2019, the Group's PBT at RM66.3 million was 4.2% lower than the RM69.3 million achieved in 2018. The two key reasons were higher operating and finance costs due to the start-up of the new solid production plant ("SPP NOVO") and a lower profit contribution from associate company, Straits Apex Sdn. Bhd.. The Group's PAT was RM52.8 million, 10% lower than the financial year ("FY") 2018. This was because reinvestment tax allowances relating to the Group's RM80 million investment in SPP NOVO were applied in 2018, leading to a lower effective tax rate of 17.2% in 2018 as compared to 23.4% in 2019.

(3) Has Apex Healthcare contributed to the community in response to COVID-19?

Corporate social responsibility is an important pillar of the Group's sustainability efforts. In response to the pandemic, the Group contributed RM250,000 worth of protective suits, face shields and hoods to Hospital Kuala Lumpur on 5th May 2020, RM20,000 to the COVID-19 Pandemic Fund administered by Mercy Humanitarian Fund to support affected marginalised groups and hand sanitizers and face masks to support front liners at Hospital Melaka and Polis Melaka.

(4) How many new products were launched in 2019?

A total of nine pharmaceutical products under Group Brands were launched with sales of RM 4.3 million in 2019, or 0.6% of the Group's overall revenue. The top three new pharmaceutical products in terms of sales were as follows:-

- Niferin – for treatment of hypertension and coronary heart disease;
- Aveflon - for treatment of acute and recurrent haemorrhoidal disease; and
- Avoral – for management of urinary tract infections.

Historically, the Group has been launching between six to eight new pharmaceutical products a year. In addition, the Group had also launched six new consumer healthcare products and three new point of care diagnostic products in 2019.

(5) Did the Group experience any supply chain interruptions during the Movement Control Order ("MCO")?

Initially, there were some supply chain challenges, resulting in higher cost for some raw materials and lengthened delivery times. The Group planned ahead and had sufficient raw materials throughout the MCO period and for the medium term. Currently, supply chains have largely normalised, but may be interrupted again should new waves of COVID-19 infections lead to fresh lockdowns in the countries where the Group's suppliers are based.

(6) Can Apex Healthcare continue to perform well during the COVID-19 pandemic?

The Group recorded strong sales due to heightened demand for products across all therapeutic groups in the first quarter of 2020, but the Group does not expect this increased demand to sustain. There were opportunities to supply masks, thermometers and sanitizers in the early stages of the pandemic due to shortages caused by a sudden spike in demand. Currently, there are no shortages for these products in the market. There may be future opportunities to market and distribute COVID-19 specific drugs and vaccines when available. Market demand has been subdued in all business units of the Group since April and recovery is expected to be gradual. The Group has conducted a careful review of its operations in order to align the operating costs and strategies with market expectations in the new normal. Further updates on prospects will be provided in subsequent quarterly results announcements to be made to Bursa Malaysia Securities Berhad.

(7) Did the MCO in Malaysia and the Circuit Breaker in Singapore affect your business?

The Group's key concerns from the start of the pandemic is the safety of the staff and the continuity of operations so that essential medicines under the Group's care remain available to the public throughout the pandemic. Operations in both Malaysia and Singapore were considered essential industry, and officially allowed to continue operating but with reduced manpower on site and stringent safe management measures. These resulted in some production and distribution backlogs. Operations have gradually normalised with the progressive re-opening of the economies. However, market demand has been subdued since the start of the MCO.

(8) Why was the final dividend changed to a second interim dividend, and do you expect to maintain the same rate in 2020?

There was uncertainty over the date of the AGM because of the MCO. An interim dividend requires only Board's approval and it was paid on 16th June 2020, ensuring that there was no delay in the payment of dividends to shareholders. Total dividends paid in respect of FY2019 was a 9.6% increase over FY2018. This was equivalent to a pre-bonus issue rate of 14.8 sen per share. The impact of the pandemic on the Group's performance is being closely monitored and the Board will decide the quantum of future dividends at the appropriate juncture.

(9) Why are you not giving e-vouchers for shareholders who take the trouble to register and attend the virtual AGM?

The Board of Directors thanks all shareholders and proxies for participating in the Company's first virtual AGM. But as stated in the Administrative Guide that accompanied the Notice of AGM, the Company will not be providing vouchers or door gifts for shareholders or proxies who participate in the virtual AGM. This is also in line with the Group's measures to contain operating expenses, given the challenging and uncertain economic outlook caused by the COVID-19 pandemic.

(10) What are your main drivers of growth and where do you see future growth opportunities for the Group?

For the Group's Products, the key drivers and opportunities for growth are as follows:-

Firstly, there is sustained growth in the usage of generic pharmaceuticals worldwide to contain rising healthcare costs. Demand is expected to grow. Secondly, the Group invests in research and development that enables timely new product launches in key therapeutic areas as patent expiry for innovator products continue. Thirdly, the Group builds strong branding for the Group's products in both private and public sectors, increasingly through digital marketing. Fourth, the Group continues to increase resources to deepen the presence of the Group in key export countries and open new international markets.

For the Group's Services, the key drivers and opportunities for growth are as follows:-

The Group offers competitive European Union Good Manufacturing Practice ("EU GMP") and Australian Therapeutic Goods Administration ("TGA") certified world class contract manufacturing services for customers. In addition, the Group provides distribution and market access services for new innovative medicines, including biosimilars, for multinational pharmaceutical companies. The Group's B2B and B2C e-commerce platforms and other digital initiatives will transform and widen market access. Lastly, the associate company, Straits Apex Sdn. Bhd. aims to secure more customers seeking a geographically diversified network of contract manufacturers for orthopaedic devices.

(11) Is there any growth in the export business?

The Group's export revenue grew 7% to RM49.2 million over 2018. This comprised 7.2% of the Group's total revenue for 2019. The Group's products are sold by 16 distributors in 17 countries, and the top export countries are Singapore, Myanmar and Hong Kong. Access to new international markets require a period of regulatory work and this is underway for more countries. The Group places importance on geographical business expansion, and the Group's EU GMP and Australian TGA certifications are important facilitators.

(12) How much was spent on research and development of new drugs in 2019?

The Group's research and development ("R&D") expenditure in 2019 grew 16.5% over 2018. R&D is a critical success factor and will always be a key priority of the Group. This is to ensure that the Group has a growing pipeline of future new products to sustain growth.

(13) Are there any M&A opportunities?

The Group is constantly evaluating opportunities to grow the business, including mergers and acquisition. At this juncture, there are no merger and acquisition projects to announce.

(14) What is the capacity utilization for SPP NOVO? Any new production lines to be added this year?

In 2019, the capacity utilization for the production of solids reached 74%. At this level, the Group is actively evaluating capacity expansion through the addition of additional production lines in SPP NOVO. However, market demand has been subdued because of the pandemic and recovery is expected to be gradual. The Group is monitoring the market closely and will ensure that the addition of new production lines will be made at the best time to match production capacity to demand. For liquid products, capacity utilization reached 90% in 2019. The Group has already committed to the installation of a third liquid production line and this will be commissioned by the fourth quarter of 2020.

(15) Compared to your competitor, your gross margin is relatively low. Any solution to increase your gross margin?

70% of the Group's revenue is derived from distribution and trading activities, which carry lower gross margins. As such, the Group's consolidated gross profit margin will be lower. Taken on its own, the gross margin from the manufacturing segment is comparable to the Group's competitors.

(16) Referring to the company's proprietary brand products, how much profit is contributed in FY2019 and are all the proprietary products generic drugs?

The Group's proprietary brand products contributed approximately 60% of the Group's PBT in FY2019. The Group also has consumer healthcare products and point of care diagnostics that carry the Group Brands.

(17) Does the company produce biosimilars?

The Group does not currently produce biosimilars as these are largely sterile injectables, a dosage form which the Group did not manufacture. However, the Group distributes biosimilars and other injectables under cold chain specifications for multinational pharmaceutical companies in Malaysia and Singapore.

(18) Can you explain the absence of IP assets such as trademark or generic drug development costs on your balance sheet?

It is assumed that the question refers to intangible assets being R&D development cost rather than trademark and computer software. All R&D costs are recognised in the profit and loss as incurred. The Group has taken the conservative approach of not capitalising any costs that relate to the development of new generic drugs. It was explained in note 2.12 on accounting policies which can be found on pages 90 and 91 of the Annual Report 2019. The value of intangible assets was RM1.67 million at the end of FY2019 and relates to the acquisition of the AGNESIA trademark and computer software which was explained in note 16 on page 121 of the Annual Report.

(19) What is the company's competitive edge in producing generic drugs? Do we have a cost advantage compared to other players in production?

The Group's competitive edge is the EU GMP and Australian TGA certifications for the manufacturing plants. This is supported by the strong branding of XEPA as a manufacturer of high-quality generic medicines at affordable price points.

(20) Will the company benefit from a significant patent cliff from the years 2019 to 2024? What is the difficulty and cost to develop generic drugs?

The Group is constantly working on developing generic versions of innovator drugs going off patent and aims to benefit from the patent cliff mentioned.

The cost of developing a new generic drug varies widely and could range from RM400,00 to RM800,000, depending on the molecules involved and the nature and complexity of the formulation.

(21) Has the Group participated in tenders for the supply of pharmaceutical products in both Malaysia and Singapore?

The Group participates actively in public and private tenders for the supply of pharmaceutical products in both Malaysia and Singapore. For the public sector, total tender sales for both Group Brands and Agency Brands was RM72.5 million in FY2019, a growth of 11.3% over the RM65.1 million achieved in FY2018. This represented 10.5% of the Group's overall revenue, with 9% in Malaysia and 1.5% in Singapore. The Group continues to place emphasis on serving both private and public sectors equally. There is scope to grow more public sector business in the region.

(22) What are the reasons for the increase in inventories written off and written down in FY2019 and will this recur in FY2020?

The write off inventories related to the cessation of certain agencies for consumer healthcare products that were marketed and distributed by the Company's subsidiary in Singapore. The Group does not expect these to recur in the financial year 2020. The write down for inventories should be read together with the reversal of inventories written down for better comparison. For FY2019, the nett increase in inventory written down was approximately RM370,000 which was 0.05% of the Group's revenue.

(23) What are the current export countries for orthopaedic devices?

The associate company contract manufactures orthopaedic devices for multinational orthopaedic companies. The Group does not have the details of the countries where these devices are sold as this information is proprietary to its customers, and not disclosed to the Group.

(24) Please provide an update for the new orthopaedics production line.

The associate company, Straits Apex Sdn. Bhd., has established a third manufacturing facility at Penang Science Park in the fourth quarter of 2019 in order to cater to projected demand from customers. This new facility is now fully operational. However, the pandemic has resulted in the postponement of non-critical orthopaedic surgeries worldwide as hospitals direct their resources to treating COVID patients. Demand has weakened as a result and capacity utilisation of the new plant is expected to be lower than forecast.

(25) Straits Apex Sdn Bhd has performed very well. What are the Group's plans to further expand this business segment?

The Group invested a 40% equity position in this joint venture in 2012 and have since worked with the joint venture partner in growing the business from a single manufacturing site to three today. Straits Apex Sdn. Bhd. aims to secure more customers seeking greater geographical diversification in their network of contract manufacturers and the Group will continue to support its business growth plans.