ADVENTA BERHAD
Registration No. 200301016113 (618533-M)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE SEVENTEENTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 21, JALAN TANDANG 51/205A, SEKSYEN 51, 46050 PETALING JAYA, SELANGOR DARUL EHSAN on TUESDAY, 21 JULY 2020 at 10:00 A.M.

Minority Shareholders Watch Group's ("MSWG") questions and answers

Strategy and financial matters

Question 1:

Adventa has not identified new businesses or activities that are able to compensate the loss of revenue and profit upon the disposal of Electron Beam Sdn Bhd (E-Beam) in 2019.

E-Beam contributed RM18.44 million to Adventa's group revenue, and profit after tax of RM6.1 million for the 14-month financial period ended 31 December 2018.

In the meantime, the home dialysis business is at a nascent stage with insignificant contribution and declining revenue from hospital supplies segment in FY19.

a) What is the strategy going forward for Adventa to grow its revenue and profit? How does the Company plan to spend the remaining balance of RM20.3 million from the RM75 million sales proceeds of E-Beam disposal which is earmarked for future business expansion (page 17, Additional Compliance Information, Annual Report 2019)?

Answer:

As briefed in last year's AGM, the Company will, after the disposal of E-Beam, focus on the expansion of healthcare business i.e. hospital supplies, services and home dialysis. We acknowledged there was a decrease in the revenue of hospital supplies in FY 2019 compared to FY 2018 as a result of shortage in supplies of goods. However this was expected to be of a temporary nature. The revenue has since improved significantly.

We wish to reiterate that there is still a potential in the dialysis market. Even though the business is at a nascent stage, it has grown in every market that we have opened. The Board remain optimistic and support continued investment in this business.

The Company intend to utilise the remaining balance of RM20.3 million from the RM75 million sales proceeds of E-Beam (which is earmarked for future expansion) for home dialysis investments and acquisition/business ventures in healthcare distribution expenses. These proposals had already been approved by the shareholders on 18th July 2019.

Question 2:

Revenue from the healthcare segment in the three months ended 31 March 2020 has jumped approximately 200% to RM13.75 million compared to RM4.62 million in the preceding period. What are the driving factors that contributed to the increase in revenue for the segment? What are the products in the healthcare business that contributed to the significant increase in sales?

Answer:

The driving factors that contributed to the increase in revenue for healthcare segment is due to higher demand of protective devices due to the Covid 19 pandemic. PPE products have the highest sales during the period.

Question 3:

Adventa has made advances of RM33.38 million to suppliers in March 2020 (Q4FY19: RM172,000) for urgent supplies of personal protective equipment (PPE) from overseas suppliers to fulfil emergency orders (page 3, Quarterly Financial Result for three-month ended 31 March 2020).

Has Adventa received the ordered goods? Does the Group have sufficient supply of PPE to meet the increased demand due to the COVID-19 pandemic?

Answer:

All goods ordered has been received and there's sufficient stock of personal protective equipment (PPE) to meet any increase in demand from the Covid 19 pandemic.

Question 4:

How is market reception towards Adventa's home peritoneal dialysis solution?
What is Adventa's expectation on the home dialysis business?

Answer:

The market is receptive towards Adventa's home peritoneal dialysis treatments. The Company expects the business to grow and change the landscape of dialysis market in the future. From the experience of the pandemic, there will be further interest in home based activities.

Question 5:

Adventa would have been loss-making in FY19 had it not been for the profit of RM34.7 million from the disposal of a subsidiary.

Its net loss from continuing operations amounted to RM12.5 million as compared to pro-rated net loss of RM26.03 million in the preceding 12-month period (page 37, Annual Report 2019) *.

Meanwhile, revenue from continuing operations also decreased year-on-year to RM30.22 million compared to pro-rated revenue of RM35.65 million in the preceding 12-month period (page 77, Note 4, Financial Statements, AR2019) *.

This is also the second financial period in which Adventa incurred losses from continuing operations. What are the strategies to turn-around the loss-making businesses? Can shareholders expect a turnaround in FY20?

**Pro-rated calculation based on net loss from continuing operation of RM31.42 million and revenue from healthcare business of RM41.59 million for FPE 31 December 2018).*

Answer:

While revenue from the continuing business decreased in FY 2019 compared to FY18, net loss for FY19 was lower. This is a sign of improvement considering the market challenges faced by the Company. The Company is managed at a healthy cash flow position. We expect the business will grow further in FY2020 in all sectors, especially hospital supplies. Barring Covid related turbulence, profitability shall improve with higher sales.

Question 6:

Adventa has written down inventories worth RM1.65 million (2018: RM21,461) which was then recognised as cost of sales. To which segment of business do these inventories relate to? Why was the inventory written-down?

Answer:

The write down of RM1.65 million is from hospital supplies related products, which are short expiry term products. To reduce write-down rate, improved sales forecasts and purchasing policy are implemented to reduce misalignments.

Question 7:

The Company has provided RM3.08 million as allowance for impairment loss for trade receivables in FY19 (page 105, Note 19, Financial Statements, AR2019). This represents 18.19% of Adventa's gross trade receivables of RM16.93 million.

The loss allowance was made on trade receivables which have passed due for 60 days onwards and on the individually impaired accounts (page 120, Note 30, Financial Statements, AR2019).

What actions have been taken to recover the impaired receivables and trade receivables that have past due the 90-day credit term? How does the Company improve collection of trade receivables moving forward? Does the credit policy need to be reviewed given the high impairment of 18.19%?

Answer:

Impairment loss on trade receivables of RM1.51 million is mainly due to the adoption of MFRS9, which assess receivables value based on time. Most of the debts that are exceeding credit days will need to be impaired. The impairment of this year is also due to the Company decision not to restate the comparative figures which could have reduced 2019 impairments. This is just a provision and not actual bad debts. Steps are taken to minimise such impairments.

Corporate governance ("CG") matters

Question 1:

Based on the Corporate Governance (CG) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (MCCG), please provide clarification on the following:

a) **Practice 4.2:** The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.
If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

Adventa's response: Departure. Intended Outcome 4.0 of the MCCG is deemed achieved by the Company through alternative practices which are appropriate to and practical for the Company. A single-tier voting process for retention of independent directors has been implemented for FYE2019 to meet the Intended Outcome 4.0 of the MCCG.

MSWG's comment: Adventa does not adopt a two-tier voting process in the upcoming AGM to seek annual shareholders' approval for the retention of three long-serving independent directors namely Mr. Toh Seng Thong, Dato' Dr. Norraesah Haji Mohamad and Mr. Edmond Cheah Swee Leng, who have served the Board since 10 May 2004, 8 November 2005 and 27 September 2004 respectively.

The two-tier voting process is one of the avenues for Large and minority shareholders to express their views on the independence of independent directors.

It also provides greater voice to minority shareholders in determining the retention of long-serving independent directors and ultimately enable Adventa to achieve the Intended Outcome 4.0 of MCCG that the Board makes decision objectively by taking into account of diverse perspectives and insights.

Answer:

The fact that the Company departs from adopting a two-tier voting process does not affect the independence of long service Independent Director and also does not prevent the Board from making decisions objectively as the three (3) Independent Directors has the right mix of skills, experiences and knowledge base with diverse backgrounds in business and finance. They had exercised their due care in the interest of the shareholders of the Company and have always taken active participation in strategic decisions independently. The Board and shareholders values such active members.

Question 2:

Chapter 9, Paragraph 9.21(2) of the Main Market Listing Requirements (MMLR) requires companies to publish a summary of the key matters discussed (KMD) at the AGM onto the Company's website soon after the conclusion of the general meeting.

As at 13 July 2020, the summary of KMD at Adventa's AGM held in 2019 was not available on the Company's website – https://www.adventa.com.my/

Answer:

The Company had already publish a summary of KMD of AGM held in 2019 onto Company's website soon after the conclusion of the general meeting, however as the Company revamp the website this year, the website only publish events within 6 months period.

Shareholders' questions and answers session

Mr. Chong Jit Seng, a shareholder enquired on the following: -

(a) *What is the number of patients for the first quarter of 2020 in view of the revenue has increased more than 200% for the first quarter of 2020?*

Mr. Low responded that the paying patients of the dialysis business has growth significantly. In the past, the Company used to subsidise patients for trial usage but currently the Company has obtained the approval from Jabatan Perkhidmatan Awam Malaysia ("**JPA**"), Social Security Organisation ("**SOCSO**"), KWAP, Zakat to treat their patients. There is an average four (4) to five (5) new patients intake per month in the last financial year as compared to thirty (30) to forty (40) patients intake per month in this current financial year. Mr. Low opined that the number of patients to be treated by the Company could be higher if the Company had secured the tender from Ministry of Health ("**MOH**") three (3) years ago.

Mr. Low shared that the Government of Malaysia ("**Government**") is encouraging dialysis patients to use home-based dialysis treatment. During the Movement Control Order ("**MCO**") period, there were no new patient allowed in the public hospitals for dialysis treatment and the existing patients were only allowed to get their treatment in the dialysis center. Social distancing rules were unable to be practiced during the dialysis treatment in the dialysis center. Hence, the Government had during the last few weeks implemented new guidelines for home dialysis treatments. In view that the Company has successfully treated patients with their own home-based PD machines, the Government is now considering to outsource the treatment of their patients to the Company. Upon outsourcing, the Company will be taking over 50% to 60% of the hospital work, Government would not be required to invest in its capital expenditure in respect of dialysis treatment and patients are also happy with treatment at home.

Mr. Low informed that as at todate, the Company has approximately recruited accumulated three hundred and fifty (350) patients for dialysis treatment if not considering drop-out rate. Sri Lanka intake is slow in view of changing of government two times. The number of patients will be increasing gradually in Sri Lanka, the Company expects to have additional two hundred (200) patients intake from Sri Lanka by the end of 2020, however this will depend on the movement control situation in the country.

(b) *Any enhancement to the PD machines/equipment?*

Mr. Low responded that the new PD model is mobile, and patient would be able to travel with it. The new model is home-based with mobility and is also more simplified for operation. Mr. Low added that the new model with the support of the Artificial intelligence (AI) is able to personalise according to each patient's requirements, analyse the outcome of treatment and customise the next treatment in order to provide the most appropriate treatment to every patient.

(c) *Any impact to dialysis business of the Company due to the MCO, COVID-19 pandemic and MOH budget constraint?*

Mr. Low responded that the budget constraint from MOH is an advantage to the Company. The home-based dialysis treatment could save the government RM2665/- per month per patient with the minimum thirteen (13) visits to the hospital (RM205/- per visit) and RM800/- extra out-of-pocket expenses per month per patient. The home-based dialysis treatment also reduces the demand of foreign care workers as the patient could be treated at home. With the same or lower budget the government can benefit more patients and the care giver (who bring the patient to haemodialysis center) will be able to go back to the employment market. This improves the GDP of the country.

(d) *Any management's action to be embarked in view of the current business environment such as low interest and low financing?*

Mr. Low responded that despite low interest, low financing and low cost of capital, the Management will continue strike for business synergy and business enhancement. Mr. Low added that as mentioned in the earlier presentation on the financial performance, the Company expects to grow its business substantially as well as to enhance vertical businesses.

Ms. Kher Pek Choo, a shareholder enquired on the following:-

(a) *What is the cost of home-based machine or the new enhanced machine?*

Mr. Low responded that currently the Government is paying approximately 65% of the cost and the remaining 35% (approximately RM1,000/- per month) to be borne by patient for hemodialysis, whereas Government/insurance companies will bear the full cost for PD. Mr. Low opined that the awareness of PD was not strong which resulted in patient opting for hemodialysis.

Mr. Low informed that the new enhanced model is approximately RM8,000/- per unit lower compared to the first model. Mr. Low added that the home-based first model can perform better in term of communication and more robust as compared to the new model. Both machines have their own advantages and disadvantages which depend on the need of the market.

Ms. Lim Cian Yai, representative from MSWG enquired on the following: -

(a) *Did the Company foresee dialysis business to eventually take over the distribution of medical supplies services as the main contributor to the Company in term of revenue and profits and if so, how long will it take?*

Mr. Low responded that the Company expects the dialysis business to be the bigger contributor overtaking the medical services business as the main contributor to the Company in year 2022.

(b) *How many hospitals had tied-up with the Company?*

Mr. Low informed that private hospitals are not keen in PD as PD will reduce the number of visits to the hospital, less complications and less surgery involvement which would result in lower billings for the private hospitals. PD is good for public hospitals as it is cost saving to both patients and hospitals. Hence, 90% of the hospitals that tied-up with the Company are public hospitals which are paid by Zakat, MOH and JPA and less than 10% are private hospitals.