

AUDIT REPORT - MODIFIED OPINION / MATERIAL UNCERTAINTY RELATED TO GOING CONCERN : QUALIFIED OPINION

IHH HEALTHCARE BERHAD

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| Type | Announcement |
| Subject | AUDIT REPORT - MODIFIED OPINION / MATERIAL UNCERTAINTY RELATED TO GOING CONCERN QUALIFIED OPINION |
| Description | Qualified Opinion on the Audited Financial Statements for the financial year ended 31 December 2019 |

Please refer attachment below.

Attachments

[IHH Announcement - Audit Report_Qualified Opinion.pdf](#)
90.4 kB

Announcement Info

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| Company Name | IHH HEALTHCARE BERHAD |
| Stock Name | IHH |
| Date Announced | 26 Mar 2020 |
| Category | General Announcement for PLC |
| Reference Number | GA1-26032020-00065 |



IHH Healthcare Berhad

Registration No. 201001018208 (901914-V)
(Incorporated in Malaysia)

IHH HEALTHCARE BERHAD

Type : General Announcement

Subject : Audit Report - Modified Opinion / Material Uncertainty Related to Going Concern

Qualified Opinion

Description: Qualified Opinion on the Audited Financial Statements for the financial year ended 31 December 2019

1. Introduction

Pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of IHH Healthcare Berhad (“IHH”) wishes to announce that the Company’s external auditors, KPMG PLT (“**Independent Auditors**”) have issued a qualified opinion in its independent auditors’ report dated 26 March 2020 (“**Independent Auditors’ Report**”) in respect of the Audited Financial Statements of IHH for the financial year ended 31 December 2019 (“**2019 Financial Statements**”).

2. Details of the Qualified Opinion disclosed in the Independent Auditors’ Report

The details of qualified opinion as disclosed in the Independent Auditors’ Report is reproduced below. IHH’s Audited Financial Statements had a similar qualified opinion in the Independent Auditors’ Report last year.

“Qualified Opinion

We have audited the financial statements of IHH Healthcare Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 195.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Qualified Opinion

As disclosed in Note 49 to the financial statements, the Group completed its acquisition of Fortis Healthcare Limited (“Fortis”) and its subsidiaries (“Fortis Group”) on 13 November 2018. Prior to the acquisition, an investigation report by an independent external legal firm was submitted to the former Fortis Board, indicating systematic lapses and/or override of internal controls. Significant findings, amongst others, highlighted the placement of inter-corporate deposits and existence of possible related parties connected with former controlling shareholders of Fortis which may require appropriate reassessment by Fortis Group on the claims from, or transactions with, such parties. The Fortis Group had also initiated enquiries of the management of the entities in the Fortis Group that were impacted in respect of the matters investigated by the external legal firm.

In addition, there are ongoing investigations by the Securities and Exchange Board of India (“SEBI”) and the Serious Fraud Investigation Office (“SFIO”), Ministry of Corporate Affairs of India. On 17 October 2018, 21 December 2018 and 19 March 2019, SEBI had issued interim orders which, amongst others, stating that certain transactions were structured by some identified entities, which were *prima facie* fictitious and fraudulent in nature, resulting in, *inter alia*, diversion of funds by former controlling shareholders of Fortis.

Due to the ongoing process of the various inquiries and investigations (including the need for any additional investigations by Fortis), the external auditors of Fortis are unable to determine if there are any regulatory non-compliances and additional adjustments or disclosures which may be necessary as a result of further findings of the ongoing or future regulatory or internal investigations and their consequential impact, if any, on the consolidated financial statements of Fortis. Any consequential adjustments may be recorded either as adjustments to the assets acquired and liabilities assumed in the acquisition which will have an impact to the post-acquisition adjustments to be recognised in the financial statements of the Group in the period the adjustments are known.

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

Please refer to the copy of Note 49 of the 2019 Financial Statements as annexed herewith under Appendix I.

3. Details of the Emphasis of Matter disclosed in the Independent Auditors’ Report

The emphasis of matter, which is not related to the key audit matters, is reported in the Independent Auditors’ Report as reproduced below:

“Emphasis of Matter

We draw attention to Note 50 to the financial statements on the judgment dated 15 November 2019 by the Supreme Court of India (“Judgment”), relating to the issuance of a suo-moto contempt notice to, amongst others, Fortis, and directed its Registry to register a fresh contempt petition in regard to alleged violation of its order dated 14 December 2018.

Since the issuance of the Judgment, several parties have filed applications before the Supreme Court, in attempts to seek remedies for themselves. On 5 March 2020, Northern TK Venture Pte. Ltd., the immediate holding company of Fortis, through its legal counsel, filed the necessary applications to intervene in the aforementioned Supreme Court proceedings.

As explained in the said note, the Group believes that it has a strong case on merits. The outcome of the Supreme Court proceedings cannot be predicted at this juncture and therefore the potential impact to the Group's financial statements cannot be determined. Our opinion is not further modified in respect of this matter."

Please refer to the copy of Note 50 of the 2019 Financial Statements as annexed herewith under Appendix II.

4. Key Audit Matters

The following key audit matters, which are not related to the modified opinion and emphasis of matter, are reported in the Independent Auditors' Report:

- a) Impairment of the goodwill and intangible assets – Group
- b) Basis of allocating the Purchase Price for the acquisition of Fortis and four (4) subsidiaries of Fortis Global Healthcare Infrastructure Pte Ltd

For more details on the above key audit matters and how the Independent Auditor addressed the key audit matters, please refer to the copy of the Independent Auditors' Report annexed herewith under Appendix III.

5. Steps taken or proposed to be taken to address the key audit matters that relate to the modified opinion and the timeline involved

The key audit matters disclosed in the Independent Auditors' Report are not related to the modified opinion issued by the Independent Auditors.

The steps taken or proposed to be taken as disclosed below are to address the Basis for Qualified Opinion.

- a) Actions taken after the findings by the external legal firm

With respect to the findings by the external legal firm, the Fortis Board has implemented specific improvement projects to strengthen the process and control environment. These include review and revision of operational and financial authority levels, greater oversight by Fortis Board, review and improve financial reporting processes, more robust secretarial documentation in regard to compliance to regulatory requirements and improving systems design and control enhancement. Accordingly, steps have been taken in relation to enhanced authority levels for payments/transfer of funds within Fortis Group, and review of borrowings above certain levels by the Fortis Board. Fortis Group had also disengaged itself from the former controlling shareholders. Fortis Board continues to evaluate other areas to strengthen processes and build a robust governance framework. The Fortis Board has initiated an enquiry of the management of the certain entities in the Fortis Group that were impacted in respect of the matters investigated by the external legal firm.

b) Actions taken after SEBI's interim orders

As per the directions from SEBI, Fortis Group has also taken steps to recover dues from the former controlling shareholders of Fortis and various other entities. These include initiating civil actions against these entities demanding recovery of the outstanding amounts together with interest and to secure repayment of the outstanding amounts on the assets of these entities.

Based on the findings of investigations to-date, all identified/required adjustments/disclosures have been recorded in the financial statements of Fortis Group prior to the Group's acquisition in November 2018.

c) Action to address the modified opinion

The Board of Fortis has initiated additional control procedures and had appointed Ernst & Young LLP, India, to conduct enquiries of certain entities and transactions in Fortis Group that were impacted in respect of the issues raised in the qualified opinion with a view of closing them.

As at 26 March 2020, the Board of Fortis is reviewing the findings of Ernst & Young LLP, India.

Barring unforeseen circumstances, the Group expects the review to be completed before 31 December 2020.

Extracted from the financial statements for the financial year ended 31 December 2019

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49. Matters arising from investigations

The Group completed its acquisition of Fortis Healthcare Limited ("Fortis") and its subsidiaries ("Fortis Group") on 13 November 2018. Prior to this acquisition, an investigation report by an independent external legal firm was submitted to the former Fortis board and there are ongoing investigations on Fortis by the Securities and Exchange Board of India ("SEBI") and the Serious Fraud Investigation Office ("SFIO"), Ministry of Corporate Affairs of India, both further explained below.

a) Independent investigation by external legal firm (prior to the acquisition of Fortis by IHH Group)

The external legal firm's significant findings revealed that the Fortis Group had made investment placements in the nature of inter-corporate deposits ("ICDs") with three companies ("borrowing companies") totalling INR4,450 million (equivalent to RM261.2 million) which were impaired in full in the financial statements for the year ended 31 March 2018 of Fortis Group. The report suggested that the ICDs were utilised by the borrowing companies (possible related parties of Fortis Group in substance) for granting/repayment of loans to certain entities whose former directors of Fortis are connected with the former controlling shareholders of Fortis.

Additionally, the placement of ICDs, their subsequent assignment and the cancellation of such assignment were done without following the normal treasury operations and treasury mandate of Fortis Group; and without specific authorisation by the former board of Fortis.

As disclosed in note 48 – Contingent Liabilities, a third party (to whom the ICDs were previously assigned) filed a civil suit in February 2018 against various entities including Fortis and have, *inter alia*, claimed implied ownership of brands "Fortis", "SRL" and "La-Femme". In the suit, it claimed that consequent to a term sheet, Fortis is liable for claims owed by the third party to a certain party, in addition to total claims of INR2,534 million (equivalent to RM148.8 million) and other claims by the said certain party. Based on advice from external legal counsel, Fortis believes that these claims are without legal basis and are not tenable and accordingly, no provisions were required. Whilst this legal matter was included as part of the terms of reference of the investigation, the merits of the case cannot be reported since the matter was *sub-judice*.

Fortis Group acquired 71% equity interest in Fortis Healthstaff Limited ("Fortis Healthstaff") at consideration of INR346,000 (equivalent to RM20,000), and 51% equity interest in Fortis Emergency Services Limited ("Fortis Emergency Services") at consideration of INR25,000 (equivalent to RM1,500). Loans of INR79.45 million (equivalent to RM4.7 million) and INR20.8 million (equivalent to RM1.2 million), were advanced to these newly-acquired subsidiaries to repay the outstanding unsecured loan amounts due to companies related to the former controlling shareholders of Fortis. The report suggested that the loan repayment and some other payments to companies connected to the former controlling shareholders of Fortis may have been ultimately routed through various intermediary companies and used for repayment of the ICDs/vendor advance to Fortis Group. Further the said loan advanced by EHIRCL to Fortis Healthstaff was impaired in the books of accounts at EHIRCL due to anticipated chances of non-recovery.

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49. Matters arising from investigations (continued)

b) Regulatory investigations (prior to the acquisition of Fortis by IHH Group)

On 17 October 2018 and 21 December 2018 and 19 March 2019, SEBI issued interim orders, indicating, amongst others, certain transactions were structured by some identified entities, which were *prima facie* fictitious and fraudulent in nature, resulting in, *inter alia*, diversion of funds from the Fortis Group for the ultimate benefit of former controlling shareholders of Fortis (and certain entities controlled by them) and misrepresentation in financial statements for the year ended 31 March 2018 of Fortis Group. Further, it issued certain interim directions, *inter alia*, directing Fortis shall take all necessary steps to recover INR4,030 million (equivalent to RM236.7 million), along with due interest, from former controlling shareholders of Fortis and various other entities identified in the orders.

The matter before SEBI is *sub-judice* and its investigation has not yet concluded.

Similarly, the investigation by the SFIO is ongoing. Fortis Group has been submitting all the information required by the various investigating agencies and is fully cooperating in the investigations/inquiries.

c) Actions taken by Fortis Group

With respect to the above findings by the external legal firm, the Fortis Board has implemented specific improvement projects to strengthen the process and control environment. These include review and revision of operational and financial authority levels, greater oversight by Fortis Board, review and improve financial reporting processes, more robust secretarial documentation in regards to compliance to regulatory requirements and improving systems design and control enhancement. Accordingly, steps have been taken in relation to enhanced authority levels for payments/transfer of funds within Fortis Group, and review of borrowings above certain levels by the Fortis Board. Fortis Group had also disengaged itself from the former controlling shareholders. Fortis Board continues to evaluate other areas to strengthen processes and build a robust governance framework. The Fortis Board has initiated an enquiry of the management of the certain entities in the Fortis Group that were impacted in respect of the matters investigated by the external legal firm. To this end, Fortis Board has also appointed an independent accounting firm, to conduct enquiries of certain entities and transactions in Fortis Group to ascertain, amongst other things, the extent of diversion of funds from Fortis Group. As at 26 March 2020, the Board of Fortis is reviewing the findings of the independent accounting firm.

As per the directions from SEBI, Fortis Group has taken steps to recover dues from the former controlling shareholders of Fortis and various other entities. These include initiating civil actions against these entities demanding recovery of the outstanding amounts together with interest and to secure repayment of the outstanding amounts on the assets of these entities.

Based on the findings of investigations to-date, all identified/required adjustments/disclosures have been recorded in the financial statements of Fortis Group prior to the Group's acquisition in November 2018. Any further adjustments/disclosures, if required, would be made in the financial statements of Fortis Group pursuant to the above actions to be taken by the internal/regulatory investigations, as and when the outcome of the above is known.

Any consequential adjustments will be recorded as post-acquisition adjustments to be recognised in the financial statements of the Group in the period the adjustments are known.

Extracted from the financial statements for the financial year ended 31 December 2019

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50. Other matters

On 13 July 2018, NTK, as subscriber, entered into a share subscription agreement ("Fortis SSA") with Fortis, as issuer, where NTK has agreed to subscribe 235,294,117 new equity shares of Fortis with a face value of INR10 each ("Subscription Shares"), constituting approximately 31.17% of the total voting equity share capital of Fortis on a fully diluted basis ("Expanded Voting Share Capital") for a total consideration of INR4,000 crore and Fortis has agreed to issue and allot the Subscription Shares by way of preferential allotment in accordance with the terms of the Fortis SSA ("Proposed Subscription").

On 13 November 2018, the Proposed Subscription was completed in accordance with the terms of the Fortis SSA. IHH acquired 31.17% equity interest in Fortis through a preferential allotment by Fortis to NTK, and NTK became the controlling shareholder of Fortis.

As a consequence of the Proposed Subscription, NTK was required to carry out the following:

- a) pursuant to the board resolution dated 13 July 2018 passed by the Board of Directors of Fortis approving the Proposed Subscription and execution of the Fortis SSA ("Fortis Board Resolution"), a mandatory open offer for acquisition of up to 197,025,660 equity shares of face value of INR10 each in Fortis, representing additional 26% of the Expanded Voting Share Capital of Fortis, at a price of not less than INR170 per share ("Fortis Open Offer") or such higher price as required under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("SEBI (SAST) Regulations").
- b) in light of the acquisition of the controlling stake of Fortis, a mandatory open offer for acquisition of up to 4,894,308 fully paid up equity shares of face value of INR10 each in Malar, representing 26% of the paid-up equity shares of Malar at a price of INR58 per share ("Malar Open Offer"). The Malar Open Offer is subject to the completion of the Fortis Open Offer.

On 14 December 2018, the Supreme Court of India passed an order in the matter of "Mr Vinay Prakash Singh v. Sameer Gehlaut & Ors.", directing "status quo with regard to sale of the controlling stake in Fortis Healthcare to Malaysian IHH Healthcare Berhad be maintained" ("Order"). Pursuant thereto, decision was taken not to proceed with Fortis Open Offer and Malar Open Offer.

Vide its judgment dated 15 November 2019 ("Judgment"), the Hon'ble Supreme Court of India issued suo-moto contempt notice to, amongst others, Fortis, and in pursuance thereof, its Registry has registered a fresh contempt petition in regard to alleged violation of the Order ("Suo-Moto Contempt"). In this respect, the Hon'ble Supreme Court sought an enquiry into:

- i. Whether the subscription by NTK for the Shares of Fortis was undertaken in violation of the Order; and
- ii. Whether the consummation of the acquisition of healthcare assets from RHT Health Trust by Fortis was undertaken in violation of the Order.

On 5 March 2020, Fortis has filed a detailed reply to the suo-moto contempt, praying inter alia, that the Suo-Moto Contempt proceedings be dropped and Order be modified/vacated such that the open offers may proceed.

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50. Other matters (continued)

Since the issuance of the Judgement, several parties have filed applications before the Supreme Court, in attempts to seek remedies for themselves, as summarised below (where relevant to IHH or Fortis):

- a) Anshuman Khanna, a minority shareholder of Fortis ("Minority Shareholder") has sought resumption of the Fortis Open Offer but has asked that IHH to pay interest at 10% (ten percent) to the public shareholders of Fortis who are eligible to tender shares in the Fortis Open Offer due to the delay since IHH is earning interest on the 100% of the consideration payable under the Fortis Open Offer that has deposited in the escrow account.
- b) Daiichi Sankyo Co. Ltd ("Daiichi") has sought permission to implead itself in and present its case as its rights are impacted by orders that may be passed in the Fortis Contempt Petition.
- c) The Securities and Exchange Board of India ("SEBI") has sought resumption of the Fortis Open Offer, citing larger public interest at stake.

On 5 March 2020, NTK through its legal counsel, filed the necessary applications to intervene in the aforementioned Supreme Court Proceedings, as follows:

- i. intervention applications in the Original Contempt Petition and the Fortis Contempt Petition, respectively, and to enable NTK to be heard in the Supreme Court Proceedings before any further orders are passed by the Supreme Court; and
- ii. an application to vacate the Order that continues to stay the Fortis Open Offer so as to be able to consummate the Fortis Open Offer; and support SEBI's ask of resuming the same.

In light of the Judgement, the Fortis Open Offer as well the Malar Open Offer (which is subject to the completion of the Fortis Open Offer) will not proceed for the time being.

Based on opinions from external legal counsels, the Group believes that it has a strong case on merits. Fortis had, at all times, conducted these transactions in a fair and transparent manner after obtaining all regulatory and shareholders approval and only after making all due disclosures to public shareholders of Fortis and to the regulatory authorities, in a timely manner.

Based on the opinions from NTK's and Fortis' external legal counsels, the outcome of the proceedings in the Supreme Court cannot be predicted at this juncture and the potential liability to the Group is indeterminate, at this stage.

**Extracted from the financial statements for the financial year ended
31 December 2019**

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF IHH HEALTHCARE BERHAD**

(Registration No. 201001018208 (901914-V))

(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of IHH Healthcare Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 195.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Qualified Opinion

As disclosed in Note 49 to the financial statements, the Group completed its acquisition of Fortis Healthcare Limited ("Fortis") and its subsidiaries ("Fortis Group") on 13 November 2018. Prior to the acquisition, an investigation report by an independent external legal firm was submitted to the former Fortis board, indicating systematic lapses and/or override of internal controls. Significant findings, amongst others, highlighted the placement of inter-corporate deposits and existence of possible related parties connected with former controlling shareholders of Fortis which may require appropriate reassessment by Fortis Group on the claims from, or transactions with, such parties. The Fortis Group had also initiated enquiries of the management of the entities in the Fortis Group that were impacted in respect of the matters investigated by the external legal firm.

In addition, there are ongoing investigations by the Securities and Exchange Board of India ("SEBI") and the Serious Fraud Investigation Office ("SFIO"), Ministry of Corporate Affairs of India. On 17 October 2018, 21 December 2018 and 19 March 2019, SEBI had issued interim orders which, amongst others, stating that certain transactions were structured by some identified entities, which were *prima facie* fictitious and fraudulent in nature, resulting in, *inter alia*, diversion of funds by former controlling shareholders of Fortis.

Due to the ongoing process of the various inquiries and investigations (including the need for any additional investigations by Fortis), the external auditors of Fortis are unable to determine if there are any regulatory non-compliances and additional adjustments or disclosures which may be necessary as a result of further findings of the ongoing or future regulatory or internal investigations and their consequential impact, if any, on the consolidated financial statements of Fortis. Any consequential adjustments may be recorded either as adjustments to the assets acquired and liabilities assumed in the acquisition which will have an impact to the post-acquisition adjustments to be recognised in the financial statements of the Group in the period the adjustments are known.

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

Emphasis of Matter

We draw attention to Note 50 to the financial statements on the judgment dated 15 November 2019 by the Supreme Court of India ("Judgment"), relating to the issuance of a suo-moto contempt notice to, amongst others, Fortis, and directed its Registry to register a fresh contempt petition in regard to alleged violation of its order dated 14 December 2018.

Since the issuance of the Judgment, several parties have filed applications before the Supreme Court, in attempts to seek remedies for themselves. On 5 March 2020, Northern TK Venture Pte. Ltd., the immediate holding company of Fortis, through its legal counsel, filed the necessary applications to intervene in the aforementioned Supreme Court proceedings.

As explained in the said note, the Group believes that it has a strong case on merits. The outcome of the Supreme Court proceedings cannot be predicted at this juncture and therefore the potential impact to the Group's financial statements cannot be determined. Our opinion is not further modified in respect of this matter.

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.

In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

a. Impairment of goodwill and intangible assets – Group

Refer to Note 2(f) and 2(g) - Significant accounting policies: "Goodwill on consolidation" and "Intangible assets" and Note 7 - Goodwill on consolidation and intangible assets.

The key audit matter

As at 31 December 2019, the Group's goodwill and intangible assets of RM14.7 billion represented 32.5% of the Group's total assets.

In view of the financial significance of the balance, the inherent uncertainties and the level of judgement required by us in evaluating the Group's assumptions included within the cash flow model and fair value less costs to sell model, impairment of goodwill and intangible assets is a key audit matter.

The Group conducted an impairment assessment on all its cash-generating units ("CGUs") to identify if the recoverable amount is less than the carrying amount, indicating that the goodwill and intangible assets may be impaired. The Group determined the recoverable amounts of CGUs using value in use model involving cash flow projections with a terminal value or fair value less costs to sell model. Key assumptions within these models include revenue growth, EBITDA margin, long-term growth rates and discount rates.

a. Impairment of goodwill and intangible assets – Group (continued)

The key audit matter (continued)

During the year, an impairment charge of RM214.8 million was recognised in the profit or loss of the Group in respect of the cash generating units where its recoverable amount is less than the Group's carrying amount.

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We assessed the appropriateness of using value in use or fair value less costs to sell models as the basis for determining the CGUs' recoverable amounts.
- We evaluated the Group's cash flow projections by performing retrospective assessment of the key assumptions driving the business units' cash flow projections, in particular revenue growth and EBITDA margin, to the latest internal board approved budget and plan, external market data, the historical accuracy of the Group's estimates in the previous years and our understanding of the future prospects of the business or investments.
- We worked with our own valuation specialists to challenge the discount rates and long-term growth rates, and comparing these assumptions to economic and industry forecasts.
- We performed our own sensitivity of the impairment calculation to changes in the key assumptions used by the Group to assess the extent of the changes that would be required for the assets to be impaired.
- We also assessed the adequacy of key assumptions disclosure in the Group's financial statements.

b. Basis of allocating the Purchase Price for the acquisition of Fortis and four (4) subsidiaries of Fortis Global Healthcare Infrastructure Pte Ltd

Refer to Note 2(a) – Significant accounting policies: "Basis of consolidation", Note 8 – Investment in subsidiaries and Note 43 – Acquisition and disposal of subsidiaries/business.

The key audit matter

In prior year, the Group acquired 31.17% equity interest in Fortis Healthcare Limited ("Fortis") for a consideration of INR 40.0 billion (approximately RM2.3 billion). The acquisition was completed on 13 November 2018. On 15 January 2019, Fortis completed the acquisition of four (4) subsidiaries of Fortis Global Healthcare Infrastructure Pte Ltd, a wholly-owned subsidiary of RHT Healthcare Trust, for a total consideration of INR 36.0 billion (approximately RM2.1 billion).

This was a key audit matter as the accounting for the acquisition of Fortis and four (4) subsidiaries of Fortis Global Healthcare Infrastructure Pte Ltd, were complex and the process of purchase price allocation required significant judgement and estimation used by the Group.

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We evaluated the appropriateness of the Group's assessment on the fair value of identifiable assets and liabilities, with the involvement of KPMG's valuation specialist.
- We evaluated the appropriateness of the discount rate used by comparing it with our expectations based on our knowledge of the industry in which the asset operates.

b. Basis of allocating the Purchase Price for the acquisition of Fortis and four (4) subsidiaries of Fortis Global Healthcare Infrastructure Pte Ltd (continued)

How the matter was addressed in our audit (continued)

- We assessed those significant and highly sensitive assumptions to determine that they were appropriate and supportable by comparing them with internal and external sources.
- We re-computed the goodwill arising from the business combination.
- We have also assessed the adequacy of the disclosures in respect of the acquisition in the Group's financial statements.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the 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 annual report 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 annual report and, in doing so, consider whether the annual report 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 the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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:

- 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.
- 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 internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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 ability of the Group or of the Company 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.
- 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 gives a true and fair view.
- 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 auditors' 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 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 45 to the financial statements.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya, Malaysia

Date: 26 March 2020

Lee Yee Keng
Approval Number: 02880/04/2021 J
Chartered Accountant