www.pharmaniaga.com

Pharmaniaga Berhad (467709-M)

No.7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7, 40000 Shah Alam
Selangor Darul Ehsan, Malaysia
Tel : 03-3342 9999 Fax : 03-3341 7777

(*A member of UEM Group*)

Pharmaniaga Berhad (467709-M)

2008

Annual Report

www.pharmaniaga.com

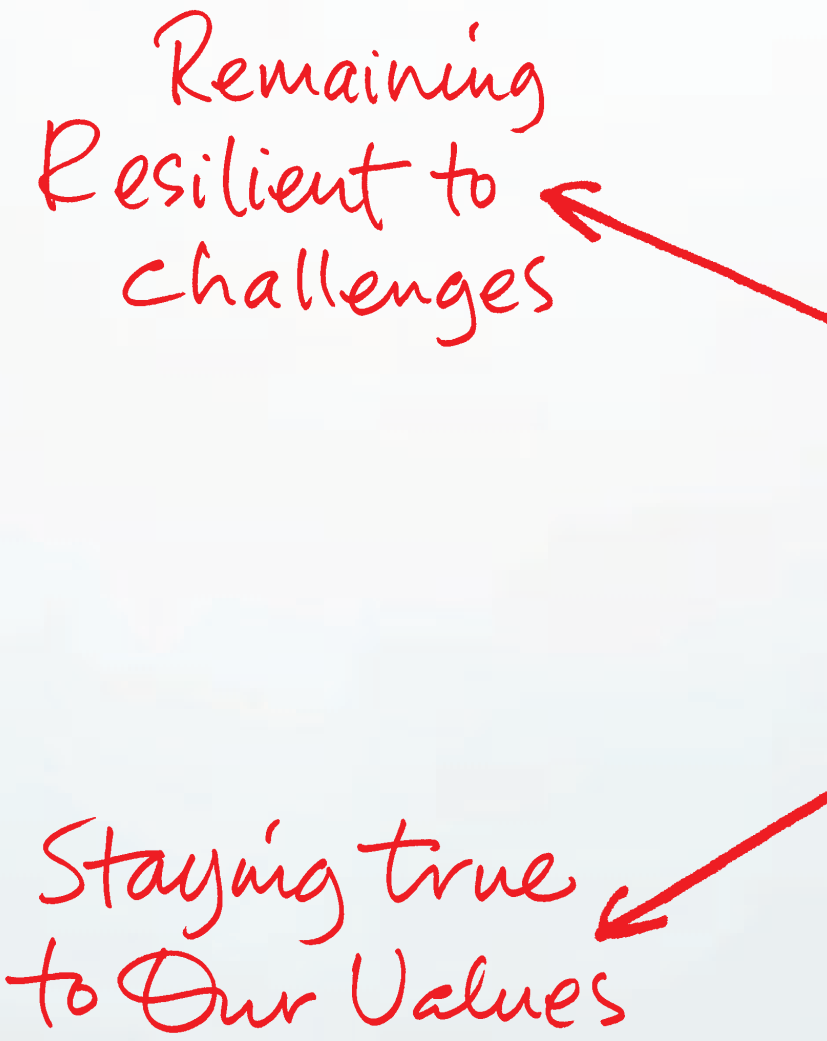
pharmaniaga

2008 Annual Report



With unwavering commitment to our goals, we accelerated growth through the challenges of 2008... and will continue to do so

2008 was a year of global economic challenges but Pharmaniaga resiliently kept up its pace of growth without a break instride, without cutting corners and above all without compromising its values. This was due to our unwavering commitment to our strategy of transformation and growth. The challenges for 2009 continue to mount, but it is a task we are primed and ready to face. **With our expertise at hand, strategies in place, and our people in sync Pharmaniaga Group is determined to keep track of our vision and lead the way as the preferred name in healthcare.**




Keeping up
the Pace
100%
Commitment

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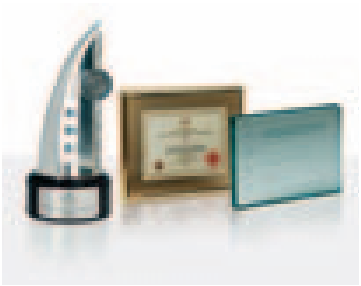
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Vision & Mission

Vision

The preferred pharmaceutical brand in regional markets.

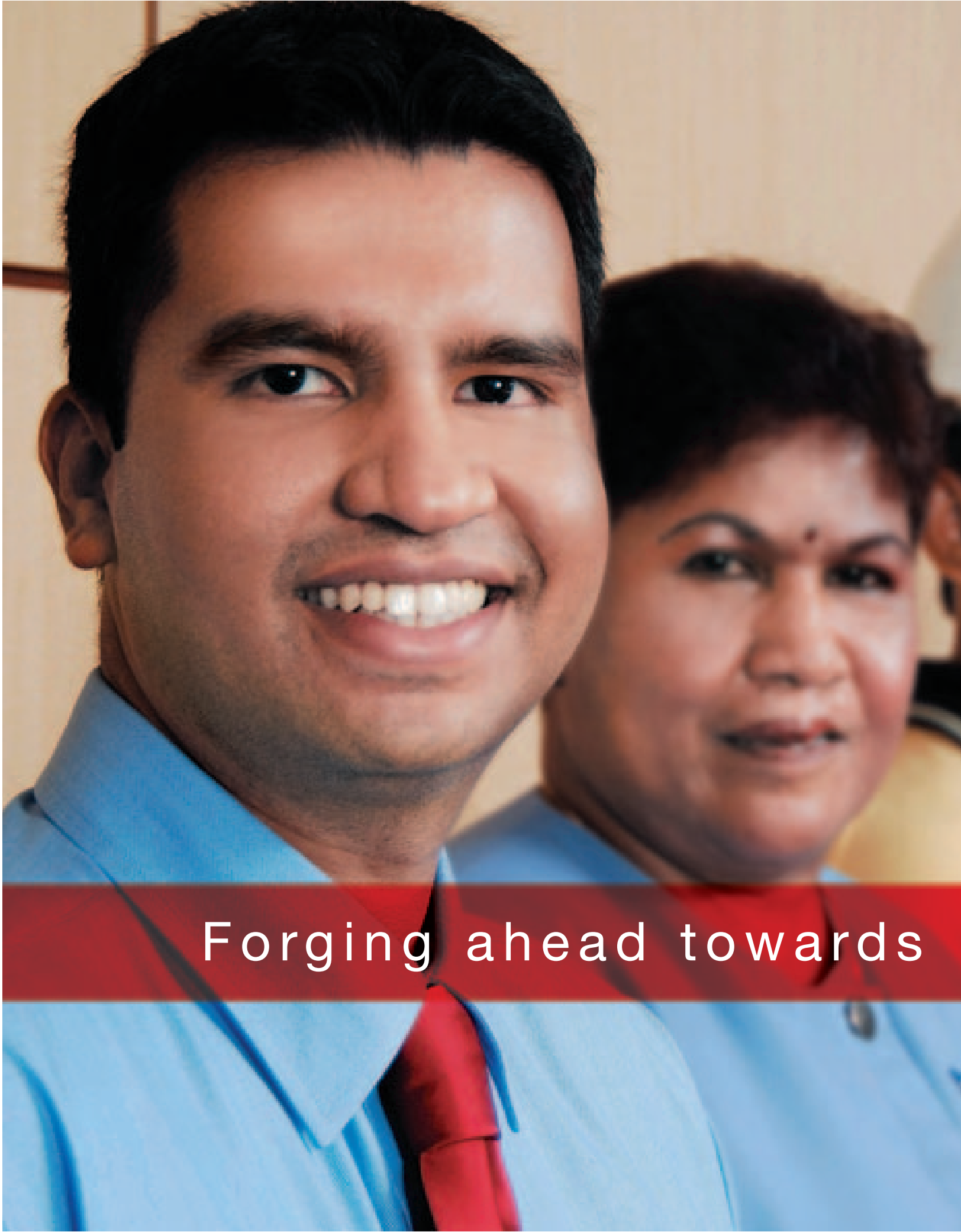
Mission

Provide quality products and superior services by professional, committed and caring employees.

Company Profile

Pharmaniaga group at a glance

- An investment holding company and its core business involves generic pharmaceuticals.
- Incorporated on 21 August 1998.
- First local healthcare company to be listed on Bursa Malaysia Securities Bhd (Bursa Malaysia).
- Listed on the Second Board of Bursa Malaysia on 12 November 1999 with a paid up capital of RM50 million, migrated to the Main Board on 13 March 2003 with an increased paid up capital of RM100 million.
- Principal activities - logistics and distribution, sales and marketing, research and development and manufacturing of generic pharmaceuticals; supply of medical products and services; hospital equipping.
- A member of the UEM Group, which gained the status of a Government Linked Company (GLC).
- Pharmaniaga Logistics Sdn Bhd, a wholly owned subsidiary, holds a 15 year concession to supply and distribute pharmaceutical and medical products to hospitals and medical institutions under the Ministry of Health (MOH) Malaysia.
- Acquired a 55% stake in an Indonesian distribution company, PT Millennium Pharmacon International Tbk (MPI) in December 2004. MPI handles 18 principals, and has 27 branches, 5 sub distributors and 14 sales stations.
- Strong international presence in Vietnam, Brunei, Indonesia, Singapore, Papua New Guinea, Fiji, Myanmar, Cambodia, Hong Kong, the Philippines, Zimbabwe, Sudan, Sri Lanka, Kenya, Iraq and Macau.
- Enlist a capacity of 2,000-strong staff force.


Forging ahead towards


scaling greater heights...
NO COMPROMISE!

2008 Financial Highlights

Turnover RM1,305.6 million	**Profit before taxation** RM90.6 million	**Earnings per share** 56.12 sen	**Dividend** Final gross dividend of 27.0 sen per share, less taxation of 25%

Enhancing Value to Shareholders

		2008	2007	2006	2005	2004
Turnover	RM'000	**1,305,646**	1,183,983	1,057,868	936,431	799,991
Net profit for the year	RM'000	**60,031**	50,080	12,481	26,902	50,835
EBITDA margin	%	**8.8**	8.9	5.7	7.8	13.2
Dividend rate	%	**27.0**	18.0	15.0	15.0	15.0
Growth in turnover	%	**10.3**	11.9	13.0	17.1	26.5
Growth in net profit	%	**19.9**	301.2	(53.6)	(47.1)	24.7
Dividend payout	RM'000	**21,396**	19,253	16,044	16,043	15,312
Year end share price	RM	**3.52**	3.22	4.08	4.96	5.80

Financial Calendar

FINANCIAL YEAR END	31 December 2008
ANNOUNCEMENT OF RESULTS	
First quarter	28 May 2008
Second quarter	14 August 2008
Third quarter	24 November 2008
Fourth quarter	26 February 2009
DIVIDEND	
Final	
- Recommendation	26 February 2009
- Record date	9 June 2009
- Payment date	2 July 2009

HEADLINE KEY PERFORMANCE INDICATORS (%)

	2008 Target	2008 Achieved
Revenue Growth	20%	10%
Return on Equity	18%	16%

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 11th Annual General Meeting of **PHARMANIAGA BERHAD (467709-M)** (the Company) will be held at Zamrud Ballroom, The Saujana Kuala Lumpur, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan on Tuesday, 26 May 2009 at 10.30 a.m. for the purpose of transacting the following businesses:

AS ORDINARY BUSINESS

1 To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2008 together with the Reports of the Directors and the Auditors thereon.

2 To declare a Final Gross Dividend of 27 sen per ordinary share less 25 percent income tax for the financial year ended 31 December 2008 as recommended by the Directors. **Resolution 1**

3 To re-elect the following Directors retiring in accordance with Article 88 of the Company's Articles of Association and, who being eligible, offer themselves for re-election:

a Datuk Sulaiman bin Daud **Resolution 2**

b Oh Kim Sun **Resolution 3**

c Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh **Resolution 4**

4 To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2008. **Resolution 5**

5 To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **Resolution 6**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions, with or without modifications:

6 **Ordinary Resolution** **Resolution 7**

Authority to issue shares pursuant to section 132D of the Companies Act 1965

"**THAT** pursuant to Section 132D of the Companies Act 1965 and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue and allot shares of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit, provided that the aggregate number of shares issued pursuant to this resolution shall not exceed 10 per cent of the total issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company".

7 **Ordinary Resolution** Resolution 8

Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature

"**THAT** subject to the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of the shareholders' mandate for the Company and/or its subsidiaries (Pharmaniaga Group) to enter into and give effect to specified recurrent transactions of a revenue or trading nature with specified classes of Related Parties (as defined in the Listing Requirements of Bursa Malaysia Securities Berhad and as specified in Section 2.2 of the Circular to Shareholders dated 30 April 2009) which are necessary for the day to day operations of the Pharmaniaga Group and the transactions are in the ordinary course of business, at arms' length basis and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the financial year and such approval conferred shall continue to be in force until:

a the conclusion of the next Annual General Meeting (AGM) of the Company following the forthcoming AGM at which such Shareholders' Mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed; or

b the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

c 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 and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions authorised by this Ordinary Resolution".

8 To transact any other business for which due notice shall have been given.

Notice of Annual General Meeting (cont'd)

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the 11th Annual General Meeting to be held on Tuesday 26 May 2009, a final gross dividend of 27 sen per ordinary share less 25% Malaysian Income Tax for the financial year ended 31 December 2008 will be paid on 2 July 2009 to Depositors registered in the Record of Depositors at the close of business on 9 June 2009.

A Depositor shall qualify for entitlement to the dividend only in respect of:

a securities transferred to the Depositor's securities account before 4.00 p.m. on 9 June 2009 in respect of ordinary transfers; and

b securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securites Berhad.

BY ORDER OF THE BOARD

WONG LEE LOO (MAICSA 7001219)
NORHANA BINTI OTHMAN (LS 0008547)
Company Secretaries

Kuala Lumpur
30 April 2009

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 7 - Authority to issues shares pursuant to section 132D of the Companies Act 1965

This proposed Ordinary Resolution, if passed, will empower the Directors of the Company to issue and allot shares from time to time up to a maximum of 10% of the issued share capital of the Company as at the date of this Annual General Meeting and for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

Resolution 8 - Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature

This proposed Ordinary Resolution, if passed, will authorise the Company and/or its subsidiaries to continue entering into the specified recurrent related party transactions of a revenue or trading nature with related parties, particulars of which are set out in Section 2.2.1 of the Circular to Shareholders dated 30 April 2009 circulated together with this Annual Report. These authorities, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

Notes

Registration of Members/Proxies

Registration of Members/Proxies attending the Meeting will be from 9.30 a.m. on the day of the Meeting. Members/Proxies are required to produce identification documents for registration.

Proxy

1 A member of the Company 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 the Company and the provision of Section 149(1)(b) of the Companies Act 1965 need not be complied with.

2 The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.

3 Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act 1991, he may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

4 The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Company's share registrar, Symphony Share Registrars Sdn Bhd, 26th Floor, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur at least forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof. The Annual Report and Form of Proxy are available for access and download at the Company's website at www.pharmaniaga.com.

Statement Accompanying Notice of AGM

Statement Accompanying Notice of the 11th Annual General Meeting pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

1 NAMES OF THE DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE ANNUAL GENERAL MEETING:

Directors retiring pursuant to Article 88 of the Articles of Association:

a Datuk Sulaiman bin Daud

b Oh Kim Sun

c Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh

2 BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

A total of 6 meetings were held during the financial year ended 31 December 2008 in which 5 were Ordinary Board Meetings while another one (1) was Special Board Meeting (*).

Date	Time	Venue
27 February 2008	3.30 p.m.	Meeting Room, Pharmaniaga LifeScience Sdn Bhd Lot 7, Jalan PPU 3, Taman Perindustrian Puchong Utama 47100 Puchong, Selangor Darul Ehsan
4 April 2008	3.30 p.m.	Meeting Room, UEM Leadership Center No 5 Jalan 217, Off Jalan Templer 46050 Petaling Jaya, Selangor Darul Ehsan
28 May 2008	2.30 p.m.	Boardroom, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
14 August 2008	2.30 p.m.	Boardroom, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
*20 October 2008 (Special)	3.00 p.m.	The Saujana Kuala Lumpur, Saujana Resort Jalan Lapangan Terbang SAAS 40150 Shah Alam, Selangor Darul Ehsan
24 November 2008	3.30 p.m.	Boardroom, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan

3 DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Directors' commitment, resources and time allocated to the Company are evident from the attendance record which well surpassed the 50% attendance requirements of Bursa Malaysia Securities Berhad as tabulated below:

Name of Director	No of meetings attended	Percentage of attendance (%)
Dato' Mohamed Azman bin Yahya	6/6	100.00
Mohamad bin Abdullah	6/6	100.00
Datuk Sulaiman bin Daud	6/6	100.00
Dato' Ahmad Pardas bin Senin	5/6	83.33
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	6/6	100.00
Ismael Fariz bin Ali	4/6	66.67
Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Haji Salleh	6/6	100.00
Oh Kim Sun	6/6	100.00

4 DATE, TIME AND PLACE OF THE ANNUAL GENERAL MEETING

Date : Tuesday, 26 May 2009

Time : 10.30 a.m.

Place : Zamrud Ballroom, The Saujana Kuala Lumpur, Saujana Resort, Jalan Lapangan Terbang SAAS 40150 Shah Alam, Selangor Darul Ehsan

5 FURTHER DETAILS OF DIRECTORS WHO ARE STANDING FOR RE-ELECTION

The details of the 3 Directors seeking re-election are set out in their respective profiles which appear in the Profile of Directors on pages 32 to 35 of this Annual Report. The details of their interest in the securities of the Company are set out in the Analysis of Shareholdings on page 195 to 197 of this Annual Report.

Corporate Information

NO	NAME	POSITION	AUDIT COMMITTEE	NOMINATION COMMITTEE	RISK MANAGEMENT COMMITTEE	ESOS COMMITTEE	INVESTMENT COMMITTEE
1.	Dato' Mohamed Azman bin Yahya	Non-Independent Non-Executive Chairman					
2.	Mohamad Bin Abdullah	Managing Director			●	●	●
3.	Datuk Sulaiman Bin Daud	Senior Independent Non-Executive Director	●	○	○		○
4.	Dato' Ahmad Pardas Bin Senin	Non-Independent Non-Executive Director		●		●	
5.	YM Dato' Raja Nong Chik Bin Dato' Raja Zainal Abidin	Independent Non-Executive Director	○				
6.	Ismael Fariz Bin Ali	Non-Independent Non-Executive Director					●
7.	Dato' Wira Prof. Ir. Dr. Mohammad Noor Bin Hj. Salleh	Independent Non-Executive Director	●	●	●	○	
8.	Oh Kim Sun	Non-Independent Non-Executive Director					●
9.	Stephen Sze Kwong Yew	Chief Operating Officer			●	●	
10.	Abd Rahman Bin Abdullah Thani	President Director, MPI			●		
11.	Ramlan Bin Abdul Rahman	Senior General Manager, Group Corporate Services			●		

○ Chairman ● Member

COMPANY SECRETARIES
1. Wong Lee Loo (MAICSA 7001219)
2. Norhana binti Othman (LS0008547)

STOCK EXCHANGE LISTING
Bursa Malaysia Securities Berhad
Main Board Trading/Services

REGISTERED ADDRESS
19-2 Mercu UEM, Jalan Stesen Sentral 5
Kuala Lumpur Sentral, 50470 Kuala Lumpur
Tel: +603 - 2727 6868 Fax: +603 - 27276856

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

SHARE REGISTRAR
Symphony Share Registrars Sdn Bhd (378993-D)
26th Floor, Menara Multi-Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
Tel: +603 - 2721 2222 Fax: +603 - 2721 2530

SOLICITORS
Zaid Ibrahim & Co.
Shahrizat Rashid & Lee
Ainul Azam & Co.
Shook Lin & Bok
Sreenevasan Advocates & Solicitors
Gananathan Loh
Hing & Alvin Advocates & Solicitors
Rastam Singa & Co.

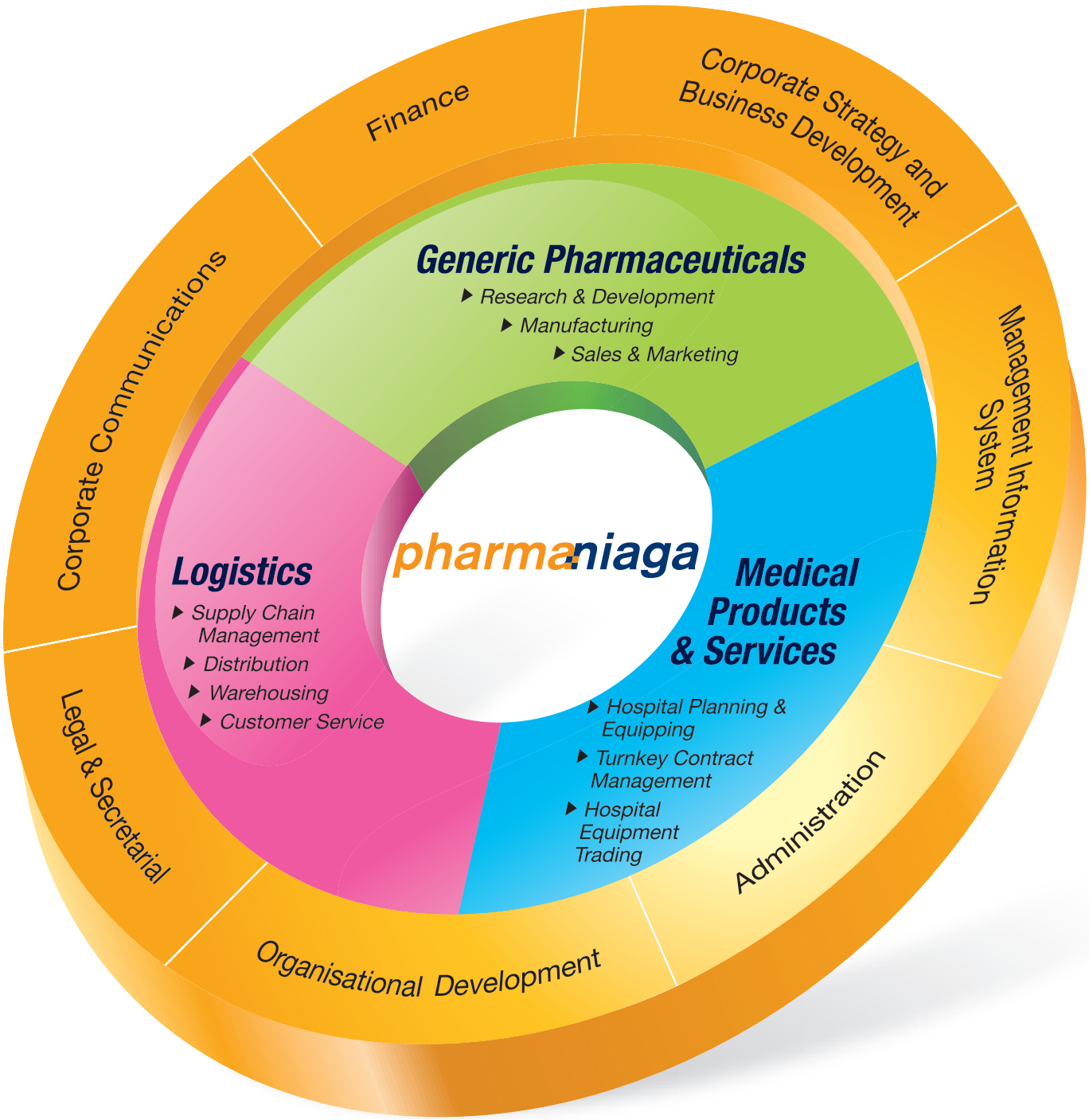
PRINCIPAL BANKERS
CIMB Bank Berhad
Standard Chartered Bank Malaysia Berhad
HSBC Bank Malaysia Berhad

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

Corporate Structure



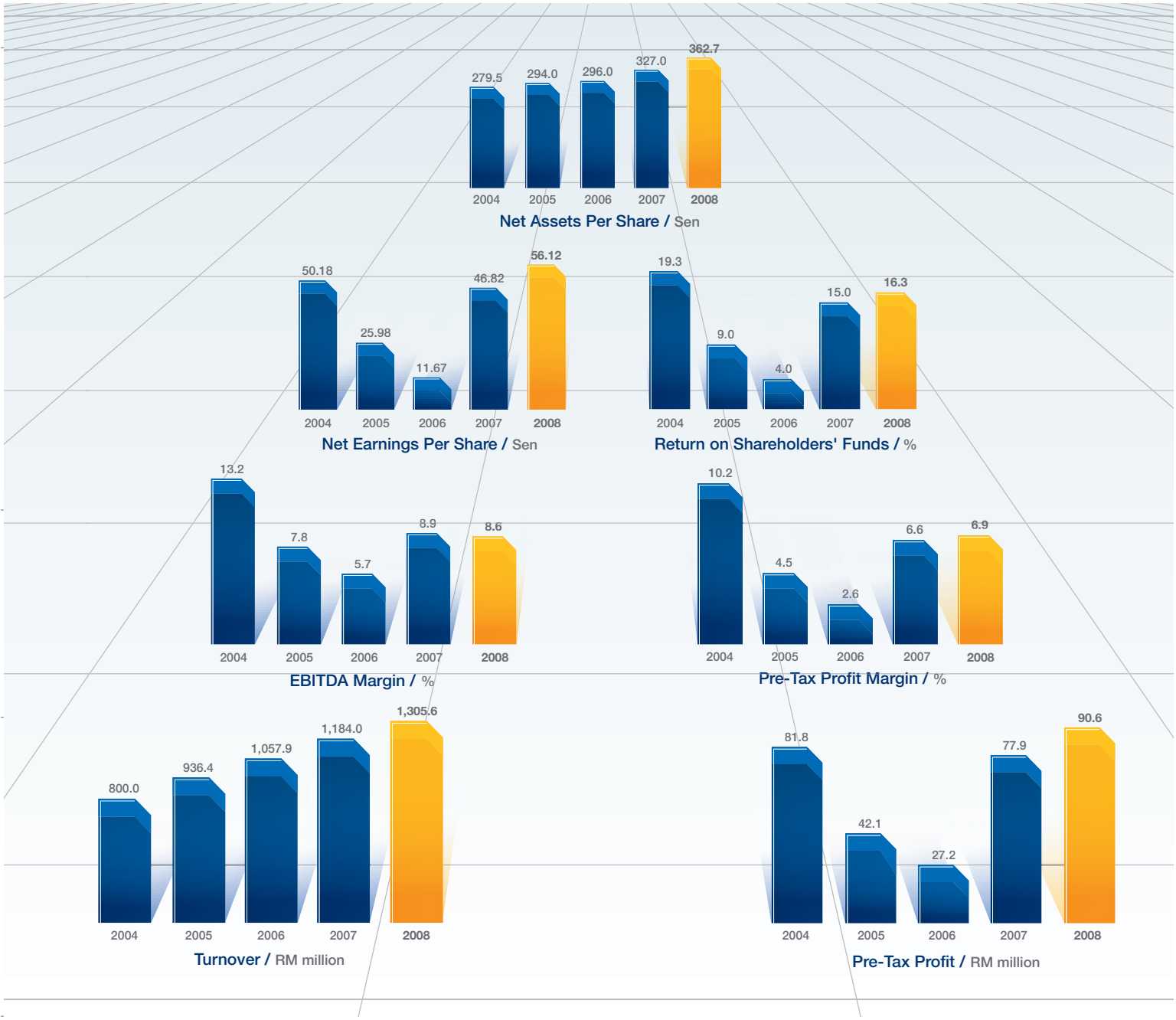
Operations Structure



Group 5-Year Financial Summary

Consolidated profit and loss accounts for the years ended 31 December

		2008	2007	2006	2005	2004
	RM'000					
Turnover		**1,305,646**	1,183,983	1,057,868	936,431	799,991
Earnings before interest, taxation, depreciation and amortisation		**115,380**	105,179	60,218	72,868	105,766
Profit before taxation		**90,599**	77,898	27,195	42,072	81,778
Taxation		**(29,190)**	(26,180)	(13,111)	(12,938)	(18,705)
Profit after taxation		**61,409**	51,718	14,084	29,134	63,073
Minority interest		**(1,378)**	(1,638)	(1,603)	(2,232)	(12,238)
Profit attributable to shareholders		**60,031**	50,080	12,481	26,902	50,835
Dividend		**19,253**	16,044	12,300	14,483	13,163
Retained profit for the year		**40,778**	34,036	181	12,419	37,672
Per share statistics	**sen**					
Net earnings per share		**56.12**	46.82	11.67	25.98	50.18
Net assets per share		**362.7**	327.0	296.0	294.0	279.5
Dividend per share		**27.0**	18.0	15.0	15.0	15.0
Profitability / Return ratio	**%**					
EBITDA margin		**8.8**	8.9	5.7	7.8	13.2
Profit before taxation on turnover		**6.9**	6.6	2.6	4.5	10.2
Profit after taxation and minority interest on average shareholders' funds		**16.3**	15.0	4.0	9.0	19.3


279.5
294.0
296.0
327.0
362.7
2004
2005
2006
2007
2008
Net Assets Per Share / Sen
50.18
25.98
11.67
46.82
56.12
2004
2005
2006
2007
2008
Net Earnings Per Share / Sen
19.3
9.0
4.0
15.0
16.3
2004
2005
2006
2007
2008
Return on Shareholders' Funds / %
13.2
7.8
5.7
8.9
8.6
2004
2005
2006
2007
2008
EBITDA Margin / %
10.2
4.5
2.6
6.6
6.9
2004
2005
2006
2007
2008
Pre-Tax Profit Margin / %
800.0
936.4
1,057.9
1,184.0
1,305.6
2004
2005
2006
2007
2008
Turnover / RM million
81.8
42.1
27.2
77.9
90.6
2004
2005
2006
2007
2008
Pre-Tax Profit / RM million

Group Financial Performance Highlights

for three years ended 31 December

		2008	2007	2006	% change from prior year 2008 vs 2007	% change from prior year 2007 vs 2006
	RM'000					
Turnover		**1,305,646**	1,183,983	1,057,868	10.3%	11.9%
Earnings before interest, taxation, depreciation and amortisation		**115,380**	105,179	60,218	9.7%	74.7%
Profit before taxation		**90,599**	77,898	27,195	16.3%	186.4%
Profit attributable to shareholders		**60,031**	50,080	12,481	19.9%	301.2%
Total assets		**798,318**	884,849	827,785	-9.8%	6.9%
Total borrowings		**122,145**	224,935	255,576	-45.7%	-12.0%
Total shareholders' funds		**388,035**	349,671	316,240	11.0%	10.6%
	%					
EBITDA margin		**8.8%**	8.9%	5.7%	-0.1%	3.2%
Pre-tax profit on total assets		**11.3%**	8.8%	3.3%	2.5%	5.5%
Pre-tax profit on shareholders' funds		**23.3%**	22.3%	8.6%	1.1%	13.7%
Profit attributable to shareholders on average shareholders' funds		**16.3%**	15.0%	4.0%	1.3%	11.0%
Total borrowings to shareholders' funds		**31.5%**	64.3%	80.8%	-32.8%	-16.5%
	sen					
Net earnings per share		**56.12**	46.82	11.67	19.9%	301.2%
Dividend per share - final		**27.0**	18.0	15.0	50.0%	20.0%
Dividend cover	**times**	**2.8**	2.6	0.8	7.9%	225.0%
Net assets per share	**RM**	**3.63**	3.27	2.96	10.9%	10.5%
Turnover per RM of employment cost	**RM**	**20.7**	20.5	22.1	1.0%	-6.9%
Turnover per employee	**RM'000**	**668.2**	618.3	527.1	8.1%	17.3%

Group Quarterly Performance

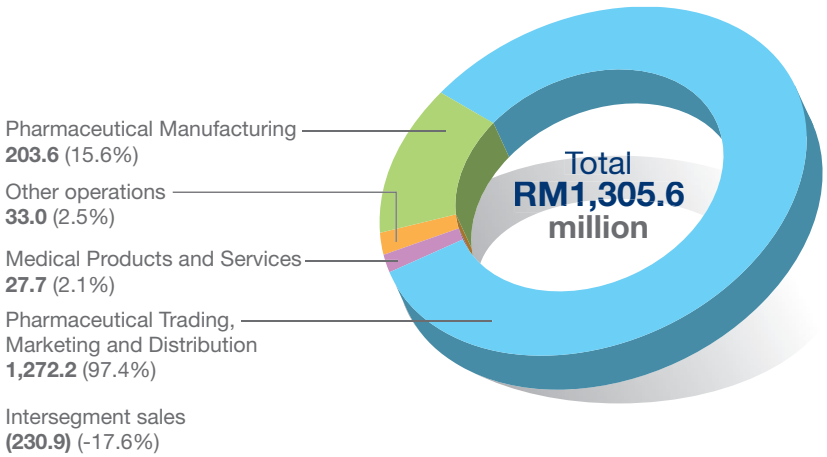
for the year ended 31 December 2008

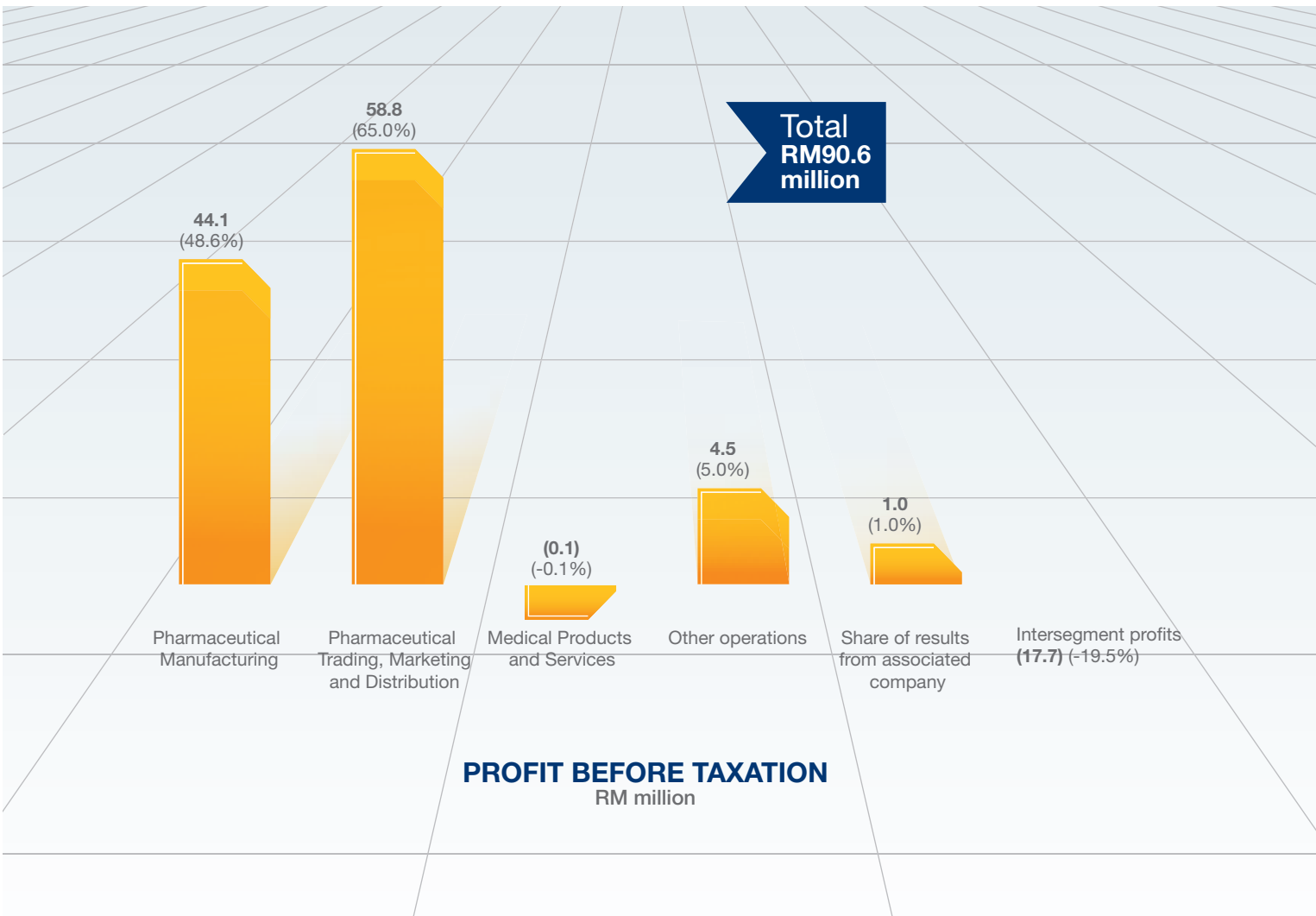
By industry segment

		1st	2nd	3rd	4th	Total
Turnover	**RM'000**					
Pharmaceutical Manufacturing		59,051	63,373	62,097	19,070	203,591
Pharmaceutical Trading, Marketing and Distribution		298,078	345,240	305,999	322,883	1,272,200
Medical Products and Services		8,615	7,207	3,454	8,491	27,767
Other operations		–	26,893	3,453	2,734	33,080
Sub-total		**365,744**	**442,713**	**375,003**	**353,178**	**1,536,638**
Less: Intersegment sales		(56,094)	(89,248)	(60,715)	(24,935)	(230,992)
Total		**309,650**	**353,465**	**314,288**	**328,243**	**1,305,646**
Profit before tax	**RM'000**					
Pharmaceutical Manufacturing		12,956	8,094	10,062	12,960	44,072
Pharmaceutical Trading, Marketing and Distribution		17,175	12,609	12,479	16,586	58,849
Medical Products and Services		(1,111)	989	(391)	444	(69)
Other operations		(5,153)	18,736	(2,284)	(6,767)	4,532
Sub-total		**23,867**	**40,428**	**19,866**	**23,223**	**107,384**
Less: Intersegment profits		3,286	(19,791)	(1,553)	332	(17,726)
Share of results from associated company		221	451	(672)	941	941
Total		**27,374**	**21,088**	**17,641**	**24,496**	**90,599**

Group 2008 Segmental Report

TURNOVER
RM million

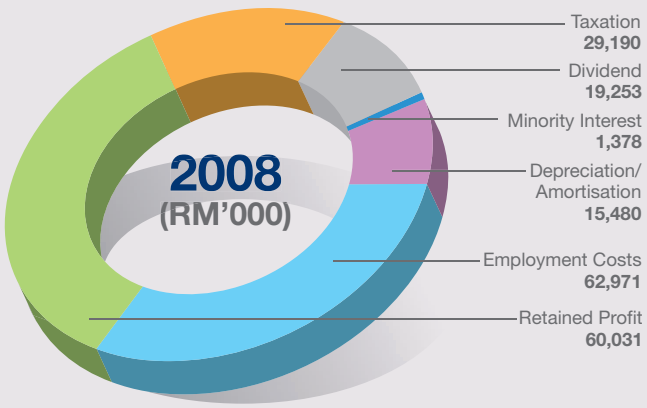


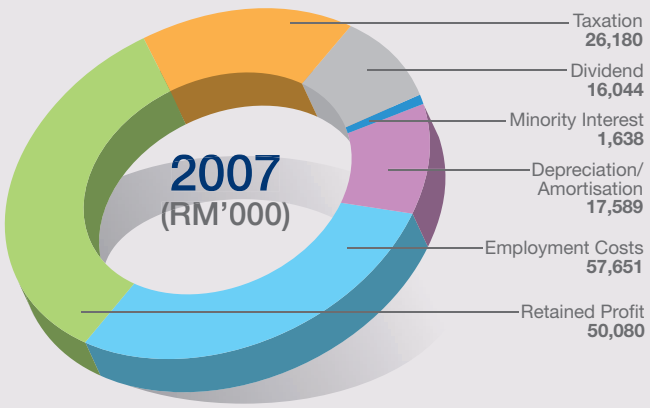


PROFIT BEFORE TAXATION
RM million

Statement of Value Added

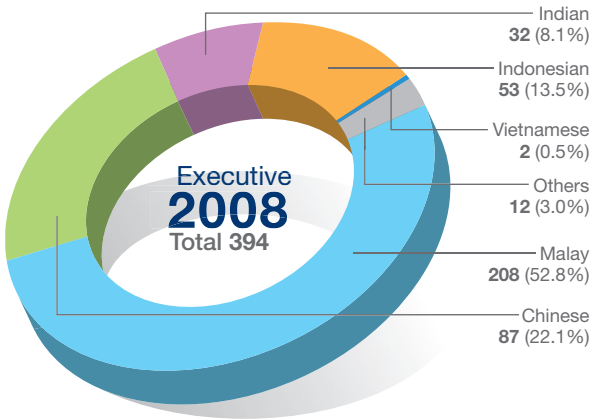
	2008 RM'000	2007 RM'000
Turnover	**1,305,646**	1,183,983
Purchase of goods and services	**(1,111,639)**	(1,005,697)
Value added by the Group of companies	**194,007**	178,286
Finance expenses (net)	**(5,704)**	(9,104)
Value added available for distribution	**188,303**	169,182

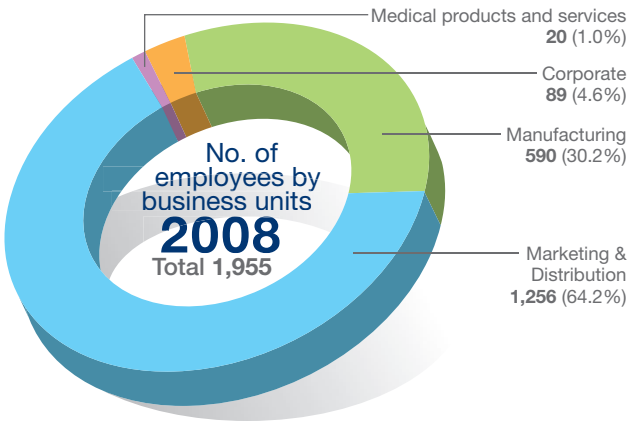


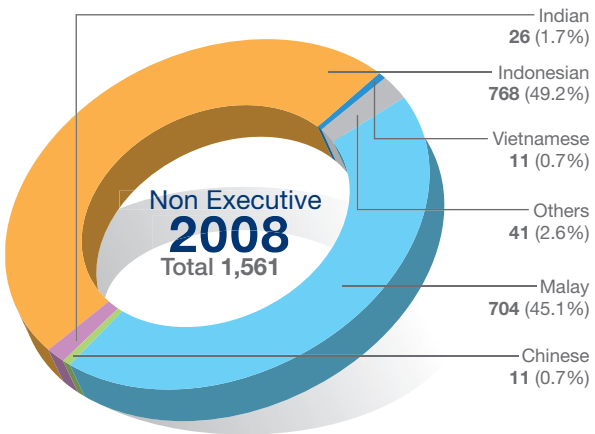


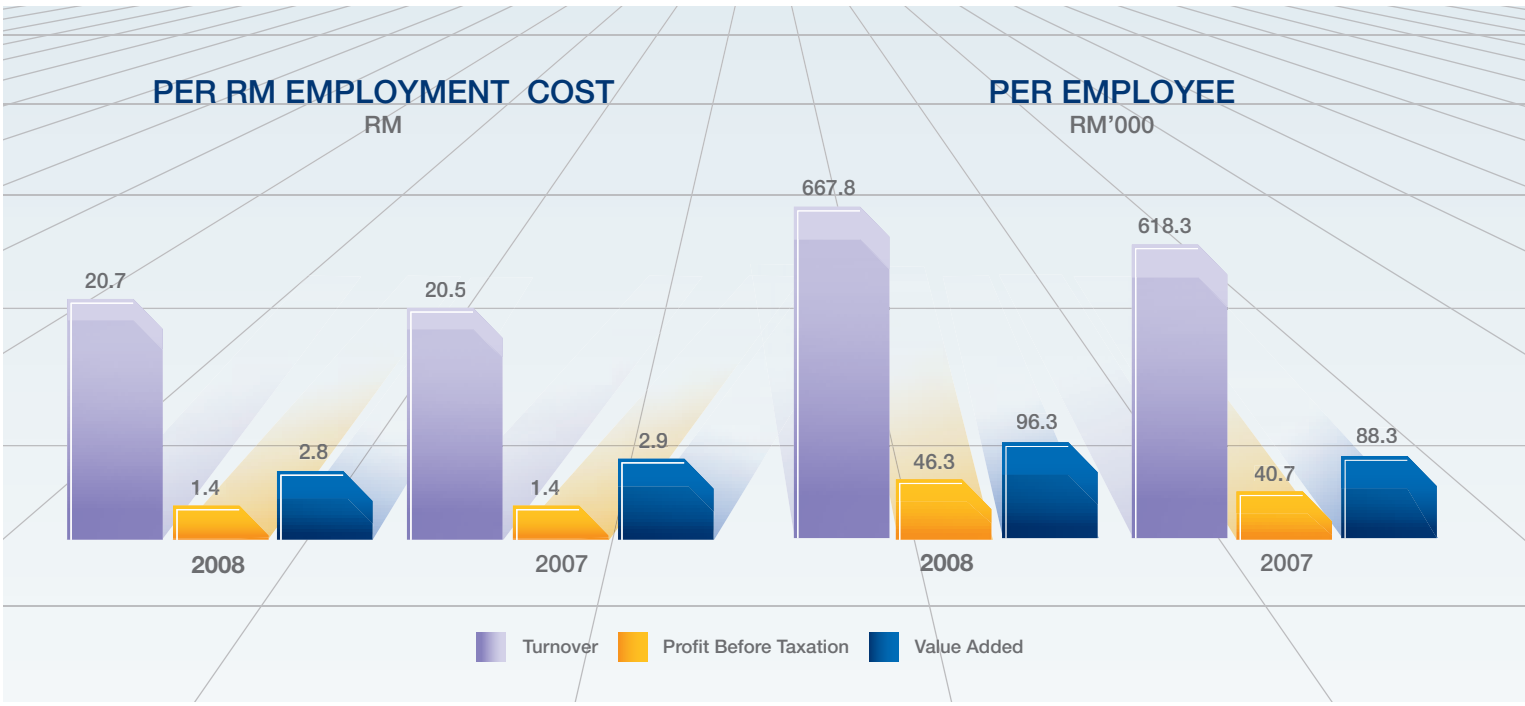
		2008 RM'000	2007 RM'000
To employees	- Employment costs	**62,971**	57,651
To government	- Taxation	**29,190**	26,180
To capital contributors	- Dividend	**19,253**	16,044
	- Minority interest	**1,378**	1,638
Earnings available for distribution and future growth	- Depreciation / Amortisation	**15,480**	17,589
	- Profit for the year	**60,031**	50,080
		188,303	169,182

Employees & Productivity









Group Achievements



Quality Management Excellence Award

Awarded by the Ministry of International Trade and Industry, this award is a reflection of Pharmaniaga's quest to become superior in its products and services that would ultimately benefit the country's healthcare system and the citizen as a whole.

Frost & Sullivans' Excellence in Healthcare Award

Pharmaniaga Berhad received the 2008 Frost & Sullivan ("F&S") Excellence in Healthcare Awards for Malaysia Physicians' Choice Award - Domestic Pharmaceutical Company of the Year in an awards banquet held in Singapore.

The award acknowledges the relentless efforts of the Pharmaniaga team and recognises the company's outstanding performance throughout 2007.

The award also seeks to appreciate companies that have pushed the boundaries of excellence in the healthcare industry, rising above the competition and demonstrating outstanding performance across the region.

Frost & Sullivans' Manufacturing Excellence Award

In welcoming the new year 2009, Pharmaniaga Manufacturing Berhad was again awarded by F&S for achieving Manufacturing Excellence in late 2008.

The award is testimony to Pharmaniaga's aspiration to be the leading healthcare provider that promotes sustainable development for the wellbeing of the nation.



Mohamad bin Abdullah
Managing Director



We strategise to stay ahead!

The Pharmaniaga Group is determined to be on the leading edge of the healthcare industry today and tomorrow. By determining innovative routes and maintaining sustainable strategies we aim to continue achieving improved returns while making meaningful contributions to the wellbeing of the people around us.

Board of Directors



from left to right: **Dato' Mohamed Azman bin Yahya** Non-Independent Non-Executive Chairman • **Mohamad bin Abdullah** Managing Director • **Datuk Sulaiman bin Daud** Senior Independent Non-Executive Director • **Dato' Ahmad Pardas bin Senin** Non-Independent Non-Executive Director



from left to right: **YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin** Independent Non-Executive Director • **Ismael Fariz bin Ali** Non-Independent Non-Executive Director • **Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh** Independent Non-Executive Director • **Oh Kim Sun** Independent Non-Executive Director

Profile of Directors



Dato' Mohamed Azman bin Yahya
Non-Independent Non-Executive Chairman

Dato' Azman, 45, a Malaysian, has been the Non-Independent Non-Executive Chairman of Pharmaniaga Berhad since 15 November 2001. He is the founder and Group Chief Executive of Symphony House Berhad, a listed outsourcing group and the Executive Chairman of Bolton Berhad, a listed property group. Prior to this, Dato' Azman was appointed by the Government of Malaysia in 1998 to set-up and head Danaharta, the national asset management company; and subsequently became its chairman until 2003. He was also the Chairman of the Corporate Debt Restructuring Committee (CDRC), which was set-up by Bank Negara Malaysia to mediate and assist in the debt restructuring of viable companies until its closure in 2002. His previous career includes auditing with KPMG in London, finance with the Island & Peninsular Group and investment banking with Bumiputra Merchant Bankers and Amanah Merchant Bank; the latter as the Chief Executive.

Outside his professional engagements, Dato' Azman is also active in public service. He sits on the boards of a number of Government Linked Corporations namely, Khazanah Nasional Berhad, the investment arm of the Malaysian Government, Malaysian Airline System Berhad and PLUS Expressways Berhad. Dato' Azman also serves as a member of the Bursa Malaysia Securities Market Consultative Panel, the National Council for Scientific Research & Development, the National Innovation Council, the Special Taskforce to facilitate Business (PEMUDAH) and the Malaysian Economic Council.

Dato' Azman is also a Director of Scomi Group Berhad and the Chairman of the Motorsports Association of Malaysia. He graduated with a first class Honours Degree in Economics from the London School of Economics and Political Science and is a Member of the Institute of Chartered Accountants in England and Wales, (ICAEW), the Malaysian Institute of Accountants (MIA) and a Fellow of the Malaysian Institute of Banks.



Mohamad bin Abdullah
Managing Director



Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

Mohamad, 48, a Malaysian, was appointed as the Managing Director of Pharmaniaga Berhad on 1 January 2007. Prior to this appointment, Mohamad was the Chief Financial Officer of UEM Land Sdn Bhd (now a listed entity; UEM Land Berhad) since 1 December 2004, and was promoted to Chief Operating Officer on 1 January 2005. Mohamad graduated from the University of Bath, United Kingdom with a Masters of Business Administration. He had his early exposure in investment banking when he was working with Arab Malaysian Merchant Bank from 1988-1991. Prior to that, he was with Azman, Wong, Salleh & Co., an audit firm. In 1992, Mohamad moved to Kejora Holdings Sdn Bhd, the commercial arm of Kejora Group as the Group's Corporate Finance and Audit Manager where he served for 4 years, then joined Park May Berhad as its Financial Controller in March 1996; and subsequently promoted to General Manager, Corporate Affairs. He was then transferred to Faber Group Berhad, an associate company of UEM Group Berhad, and upon being promoted; assumed the position of Senior General Manager, Finance. In early 2004, he was promoted to Chief Financial Officer of Faber Group Berhad. Having played a key role in Faber Group's Corporate and Debt Restructuring, he was transferred to UEM Land on 1 December 2004. He is also a Director of Setia Haruman Sdn Bhd, the Master Developer of Cyberjaya and a member of Cluster Working Group (CWG) on Healthcare Biotechnology under the Malaysian Biotechnology Corporation Sdn Bhd.

Datuk Sulaiman, 62, a Malaysian, is the Senior Independent Non-Executive Director of Pharmaniaga Berhad. He is also the Chairman of the Investment Committee, Nomination and Remuneration Committee, Risk Management Committee and member of the Audit Committee. He was with Malaysian Tobacco Company for a considerable part of his professional life and he has been the Chairman of Bank Pertanian Malaysia for four terms from 1998 to 2006. He has been Chairman of Ranhill Power Berhad and a Director of Malaysia Packaging Industry Berhad and Director of Konsortium Transnasional Berhad and Silverlake Axis Limited in Singapore. Datuk Sulaiman has a Masters of Business Administration from International Management Centres, Buckingham, UK and is a graduate of the Stanford-Insead Advanced Management Programme at Fontainbleau, France.

Profile of Directors (cont'd)



Dato' Ahmad Pardas bin Senin
Non-Independent
Non-Executive Director



YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin
Independent Non-Executive Director

Dato' Ahmad Pardas, 56, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed on 1 July 2004 and is a member of the Nomination & Remuneration Committee and ESOS Committee of Pharmaniaga Berhad. He is also the Deputy Chairman of PLUS Expressways Berhad. He currently holds directorships in UEM Group Berhad, UEM Land Holdings Berhad, UEM Land Berhad and Yayasan UEM. He is also a director of Universiti Teknologi MARA (UiTM) and Chairman of Malaysian Directors Academy (MINDA). Dato' Ahmad Pardas is a Fellow of The Chartered Institute of Management Accountants (FCMA), a Chartered Member of the Malaysian Institute of Accountants (MIA), a Member of the Institute of Internal Auditors (IIA) and the Financial Reporting Foundation (FRF). He has been with the UEM Group for more than seventeen years since 1992. During this period, Dato' Ahmad Pardas had served in various other positions in the UEM Group, including as the Managing Director of TIME Engineering Berhad, Executive Director/CEO of TIME dotCom Berhad, Group Managing Director of Renong Berhad and Managing Director of Time Telekom Sdn Bhd. He was also Chief Operating Officer and Managing Director of EPE Power Corporation Berhad (now renamed Ranhill Power Berhad). He has also served on the boards of Faber Group Berhad, The Malaysian Industry-Government Group for High Technology (MIGHT), Silterra and Costain Group plc. Prior to joining the UEM Group, Dato' Ahmad Pardas had more than 17 years' service with the British-American Tobacco Group.

YM Dato' Raja Nong Chik, 56, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 2 September 1999. He started his career at FELCRA (Federal Land Consolidation and Rehabilitation Authority) in 1978. A year later, he became Manager in Corporate Planning and Finance at Kumpulan Fima Bhd. In 1982, he joined OYL Industries as Executive Director, leading to the formation of a joint-venture company named Razatec Sdn Bhd which pioneered a local brand of electrical products called Acson; now recognised in Malaysia as well as internationally. After 9 years, he left to start Rasma Corporation Sdn Bhd, a Class-A mechanical and electrical contractor as Managing Director and major shareholder. Presently, he is the President of the Bumiputra Manufacturers' and Service Industry Association of Malaysia. He is also a Member of Malaysia Innovation Council (Majlis Inovasi Negara) - chaired by the Prime Minister, and also a member of Chartered Institute of Management Accountants, Malaysian Institute of Accountants and Malaysian Institute of Chartered Secretaries and Administrators. Since 1 January 2009 YM Dato' Raja Nong Chik has been a Board Member of British Malaysia Institute. YM Dato' Raja Nong Chik is also the Chairman of the Audit Committee and an Independent Director of icapital.biz Berhad. He holds a Degree in Economics (Hons) from the University of Wales, UK.



Ismael Fariz bin Ali
Non-Independent
Non-Executive Director



Dato' Wira Prof. Ir.
Dr. Mohammad Noor bin Hj. Salleh
Independent Non-Executive Director



Oh Kim Sun
Independent
Non-Executive Director

Ismael Fariz, 47, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 15 November 2001. He is currently Executive Director of Investments at Khazanah Nasional Berhad. Prior to this, he was the Managing Director of FirstFloor Capital Sdn Bhd, a venture capital firm, and previously attached with a domestic merchant bank where he was with the Corporate Finance Department for 16 years. He also holds directorships in RHB Islamic Bank Berhad and Axiata Group Berhad (formerly known as TM International Berhad). He is a member of the Investment Committee and he holds a Masters of Business Administration (Finance) from University of Iowa, USA.

Dato' Wira Prof. Ir. Dr. Mohammad Noor, 61, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. Dato' Wira Prof. Ir. Dr. Mohammad Noor was appointed to the Board on 15 November 2001. Prior to his present position as President of Kuala Lumpur Infrastructure University College, he was the Vice President of Open University Malaysia. He held the position of Vice Chancellor of Universiti Pendidikan Sultan Idris and a similar position in Universiti Utara Malaysia and was the Deputy Vice Chancellor in Universiti Teknologi Malaysia before that. Dato' Wira Prof. Ir. Dr. Mohammad Noor chairs ESOS Committee and sits in the Audit Committee, Nomination & Remuneration Committee and Risk Management Committee. Dato' Wira Prof. Ir. Dr. Mohammad Noor has a Ph.D. in Civil Engineering from the University of Strathclyde, Glasgow, UK. He is currently a Fellow of the Academy of Science Malaysia, Fellow Member of Institution of Engineers Malaysia and a Member of the Malaysian Institute of Management.

Oh Kim Sun, 60, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 12 December 2005 and is a member of the Investment Committee. Oh is a Member of the Malaysian Institute of Certified Public Accountants (MICPA). An accountant by training, he began his career in 1972 with Coopers & Lybrand in London. He has over 35 years of experience in finance and has held various positions such as Finance Director of Taiko Plantations Sdn Bhd, Financial Controller of ICI Malaysia and Finance Manager (Secondment) of ICI Headquarters in London; responsible for Northern Europe. Oh led a successful management buyout of ICI's Malaysian operations in 1994 and was appointed Group Executive Director of Chemical Company of Malaysia Berhad until 2003. His directorships in other public companies include Faber Group Berhad, UEM Land Holdings Berhad and Nikko Electronics Berhad. He is also a Director of IMPAX Laboratories Inc., a company listed on National Association of Securities Dealers Automated Quotations (NASDAQ).

Note:

(i) None of Directors have any family relationship with any other Director and/or major shareholder nor conflict of interest with Pharmaniaga Berhad

(ii) None of Directors have been convicted of any offence for the past 10 years (other than traffic offences, if any)



DEAR SHAREHOLDERS,

I am delighted to bring you some good news about your Company's performance for the financial year ended 31 December 2008 despite the adverse economic conditions.

Dato' Mohamed Azman bin Yahya
Chairman

Chairman's Statement

RIDING THE STORM

The global economic downturn that we experienced in 2008 took on unprecedented proportions and surprised even the most astute industry leaders. Many corporations felt the rippling effect but Pharmaniaga managed to resist such negative trends and registered improvements for 2008 in terms of revenue and profits.

By concentrating on the pursuit of excellence in building our human capital, optimising assets, strategising new business development and engaging with the community, we are confident your Company will continue to perform well and overcome the expected turmoil in 2009.

RESULTS & PERFORMANCE OF 2008

Financially, the Group fared better for the year under review, and this was largely attributable to improvements in concession sales and supply of equipment to hospitals, as well as sales to the private sector and at our listed Indonesian subsidiary.

For 2008, the Group revenue rose 10.3% to reach RM1.306 billion, as compared to RM1.184 billion for 2007. Outpacing revenue, the Group's Profit Before Taxation (PBT) for the 2008 financial year grew by 16.3% to reach RM90.6 million as compared to RM77.9 million in 2007.

Improvement in gross margins and the share of results of an associate company also contributed to the increase in PBT. Additionally, reduced financing costs due to lower borrowings also contributed to the improved results.

Despite the improvements in revenue and PBT, the Group did not meet its Key Performance Indicators (KPIs) of Revenue Growth (RG) and Return on Equity (ROE) due to the inevitable adverse impact of the global economic crisis. As a result, the Group could only achieve 10% RG against its KPI of 20% and 16% ROE against its targeted 18%.

However, with continuous improvement in operational efficiencies, effective marketing and sales strategies and sound financial practices, we hope to address the current situation and work our way to achieving the Company's KPIs for 2009.

DIVIDENDS

In line with the favourable performance of the Group, your Board is recommending the payment of a final gross dividend of 27 sen per ordinary share less taxation of 25% for the financial year ended 31 December 2008, as compared to final tax exempt dividend of 18 sen per ordinary share in the previous year.





Chairman's Statement (cont'd)

PERFORMANCE OF LOGISTICS DIVISION

The Logistics division showed an impressive performance, recording a revenue growth of 10%. It achieved almost all of its major KPIs. The Bukit Raja warehouse throughput rate for instance, increased 25% from RM816/sq-ft in 2007 to RM1016/sq-ft in 2008.

The division has also improved on the order fulfillment for APPL, where the number of order lines increased from 318, 288 in 2007 to 642, 522 in 2008, an average 96% deliveries of which were done within 60 days.

PERFORMANCE OF SALES & MARKETING DIVISION: AT HOME & OVERSEAS

The consolidation of Sales & Marketing under the Manufacturing subsidiary as part of a major restructuring exercise in 2008 proved to be a fitting formula in synergising the right combination of people, products and processes. The result was an outstanding achievement of a record of 35% growth, well above the industry growth rate of 11%.

The strategic focus of product segmentation for the pharmaceutical range by specific therapeutic groups i.e. Acute range, Chronic range and Anti Infectives range has resulted in strong positive growth of 45%, 46% and 17% respectively against 2007. This approach has led to the emergence of a number of products recording sales of above RM1 million, including **PHARMANIAGA SIMVASTATIN**, **PHARMANIAGA AMOXYCILLIN** and **PHARMANIAGA BACAMPICILLIN**. In the local market, Pharmaniaga is undeniably a brand leader, and its strong presence in the non-government sectors has provided keen competition amongst the industry players, including leading multinational brands.

On the international front, a more aggressive approach was also introduced with a specific marketing team established to support this business sector with high growth potential. Your Company posted sales worth over RM8.4 million, recording a 9.8% growth.

Our very first International Sales Conference brought together all Pharmaniaga's business partners or distributors to address the needs of each country and reaffirm Pharmaniaga's vision in extending its international reach. The conference was held from 12 - 14 November 2008 with the theme "Towards Global Partnership", and was attended by distributors and partners from Vietnam, Myanmar, Sri Lanka, Cambodia, Kenya, Hong Kong, Singapore and Fiji.

RESEARCH & DEVELOPMENT (R&D) AT THE FOREFRONT

Our investment in R&D is testimony of the high priority we place on the quality, safety and efficacy of all our products.

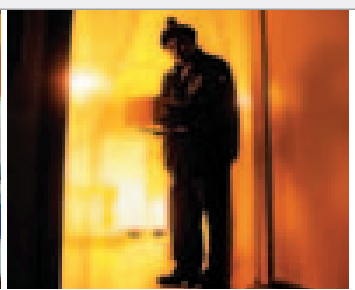
New product development adopts a robust scientific approach adopted in both our Formulation and Analytical Divisions. In addition, we have a Preclinical and Clinical Division with 4 main areas of focus - Bio-Equivalence Studies, Pharmavigilance, Product Efficacy Complaints and Herbal & Biotechnology Projects.

In 2008 we managed to register 10 of our products in Brunei, 2 in Myanmar, 6 in Hong Kong, 2 in Sri Lanka and 5 in Vietnam.

RECOGNITION & AWARDS

Our pursuit of excellence in all areas has led us to win coveted industry awards and 2008 was no exception. I am pleased to announce that your Company was recognised with 3 distinctive and prestigious awards.





Quality Management Excellence Award
This was presented by the Ministry of International Trade and Industry, and is a reflection of your Company's quest to become superior in its products and services, ultimately benefitting the citizens and the country as a whole.

The Frost & Sullivan Excellence in Healthcare Award
Your Company captured the Physicians' Choice Award and received it at a ceremony in Singapore. This is testimony to our ability to push the boundaries of excellence in healthcare, rise above the competition and demonstrate outstanding performance across the region.

The Frost & Sullivan Manufacturing Excellence Award
This award underlines our aspiration to be the leading healthcare provider, promoting sustainable development for the well-being of the nation.

In the same vein, your Company has also obtained critical certification from various authorities. Our Logistics subsidiary continues to be certified for the Standard of MS ISO 9001:2000, MS ISO 14001:2004 and OHSAS 18001:2007, as the audit by SIRIM was successfully conducted in December 2008. On the Manufacturing side, both the Purified Water System and the Water for Injection System passed their Installation Qualification and Operation Qualification and are at the final stage of Performance Qualification (PQ).

DEVELOPING OUR GREATEST ASSET: OUR PEOPLE

The contribution and dedication of a committed team plays a large part in bringing success to any organisation. Your Company strives to build an environment which encourages all employees to realise their highest potential and achieve their personal and professional goals. We promote and nurture the productive and diverse skills of our employees through training and mentoring to produce a highly motivated workforce. These attributes serve to attract the best talent for recruitment, as your Company becomes an employer of choice.

The on-going High Performance Culture (HPC) programme was designed to help employees identify areas of weakness, and to impart the right work culture, mindset, skills and knowledge. This was kicked off with a brainstorming session in February 2008, involving all members of the Senior Management team. At this session, an acronym evolved, comprising 5 pillars of shared values: simply known as **TOPIC** (**T**eamwork • **O**pen Communication • **P**assion for Excellence • **I**ntegrity & Honesty • **C**aring). These qualities define the roadmap to your Company's transformation into a world-class organisation.

A series of workshops and events were conducted to bring the HPC **TOPIC** to life and action at all levels. Positive feedback from the employees indicated that this initiative was effective in changing mindset, and this was confirmed by a much improved Employee Climate Survey result which registered 77.2% positive responses as compared to 60% in 2007.

It is encouraging also to see the many employee-driven activities organised in 2008. The Surau Committee, the unified Pharmaniaga Sports Club and the Joint Consultative Council were all set up in 2008 to promote teamwork, open communication and to care for the well-being and recreational needs of the employees.



Chairman's Statement (cont'd)

ENHANCING OUR SOCIAL CONTRIBUTION

Equally important is the work we do for society. Underpinning our philosophy of 'doing business with a conscience' and our mission of **enriching life together** is our comprehensive and innovative Corporate Social Responsibility (CSR) portfolio. As a proactive contributor to the nation's healthcare services, your Company intensified its CSR initiatives throughout 2008 via 2 major platforms - Skuad Operasi Sihat (SOS), which contributes to community wellbeing and Ayuh Kayuh (AK), which addresses global environmental issues. Efforts were also made to align our activities to the Government Linked Companies (GLC) Silver Book and the 9th Malaysias Plan.

Skuad Operasi Sihat was launched in 2007 to galvanise caring employees to partner with the Ministry of Health and MERCY Malaysia to extend basic health education, counselling and medical check-ups to the general public. 2008 saw SOS growing in experience and maturity, and the enthusiastic interest and response resulted in 4 more SOS units being set up in Juru, Kota Kinabalu, Bangi and Kuching. More than 100 employees participated and were offered internal training with opportunities to attend the **Volunteer Induction Programme** and **Basic Mission Training** courses conducted by MERCY Malaysia. SOS carried out close to 90 missions covering all 14 states in 2008. Sensitive and responsive to regional and global disasters, SOS also contributed goods-in-kind worth about RM60,000 to victims of the Myanmar floods and the China earthquake.

Ayuh Kayuh is a cycle-to-work campaign initiated as an Environmental CSR. Its objective is to promote the bicycle as an alternative transportation to motor vehicle, in order to cut greenhouse gas and therefore slow down global warming. In line with World Food Day (WFD)'s theme of 2008, World Food Security: the Challenges of Climate



Change and Bioenergy, 38 of us mounted our bicycles for the "Ride to Food", a pun to WFD's tagline of "Right to Food" to highlight the food crisis in many parts of the world, and also to re-iterate the fact that a low-carbon lifestyle can help to fight the food crisis by decreasing the demand for fossil fuel and bio-diesel, and the effects of climate change on agriculture. To underline our commitment to this initiative, we also handed over 15 bicycles to Pejabat Kesihatan Daerah Petaling for their officers to use when doing community education and health inspections for 5 sectors within Shah Alam.

CASCADING THE VALUES OF HEALTH SAFETY SECURITY AND ENVIRONMENT

Across the various divisions of your Company, we are driven by systems and procedures that inculcate strong Health, Safety, Security and Environment values. These are applied not only internally to our employees but also to our partners, vendors and even the communities we serve. On a high plane, a steering committee formulates plans and strategies to uphold and enhance these values, and this is cascaded down to all levels in a meaningful and relevant way to be embraced by all. The effectiveness is evident in our high safety standards that have resulted in negligible accident reporting.



MOVING FORWARD

Malaysia's economic outlook for 2009 is certainly much less positive than 2008, and your Company is taking a cautious stance in view of the uncertainty. Across the industry, we do not expect to record the levels of growth experienced in 2008. To reflect the expected tougher times ahead, we have been intensifying our cost containment practices and enhancing operational efficiencies while continuing to improve product quality and our levels of service.

Your Company will continue its efforts to strengthen its position as a market leader locally and widen its presence internationally. It will be a challenging task, no doubt, but the performance-driven culture that led to a successful 2008 put us in a strong footing. Exciting new products are in the pipeline with impetus provided by the establishment of new therapeutic groups. For 2009, we target to launch 14 new products as part of our effort to capture larger market share in our pursuit to be the leading generic pharmaceutical player in this region.

Due to intense competition especially in the Private and International sectors, further enhancement of the business structure, adaptability and market understanding are the key success factors. Like all generic pharmaceutical companies, Pharmaniaga must be competitive and gear towards enhancing our customer-oriented culture.

Moving ahead, we will consolidate and enrich our resources and concentrate on our core businesses. This includes encouraging skills enhancement and promoting sustainable development.

A NOTE OF APPRECIATION

First, I would like to express my deepest appreciation to my esteemed colleagues on the Board who have offered their services and assistance unreservedly throughout the year.

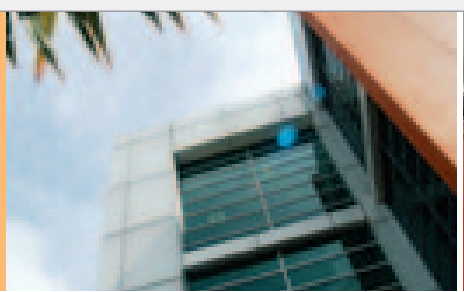
I also wish to thank the Government and regulatory authorities, our business partners, clients, bankers, suppliers and customers for their excellent support and co-operation.

My appreciation also goes out to our management team as well as all our employees for their commitment, dedication and loyal service and contribution towards the growth of Pharmaniaga.

Finally, on behalf of the Board of Directors, I would like to extend a note of heartfelt thanks and fullest appreciation to all our shareholders for your continued support, confidence and loyalty to Pharmaniaga. We will continue to strive to deliver value to all of you.



Azman Yahya
Chairman







Stephen Sze Kwong Yew
Chief Operating Officer



Delivering maximum satisfaction

To keep ahead of our competitors, Pharmaniaga continues to explore and enhance its products and services. We believe in investing in our customers, gaining valuable insights and understanding their needs - thus delivering results that satisfy.

Statement on Corporate Governance

"Corporate Governance Lies in our Heart..." the Board

"The board must have responsibility for the company as a whole. This covers not only shareholders as the owners of the company but also those who work for the company and all who may be affected by the operations of the company"

(Source: The Walkinson Committee on Company Affairs, Interim Report, CBI 1973)

"A strong sense of corporate identity is as important as slavish adherence to financial results"

Source: Michael Porter
Professor, Harvard Business School
Author, Competitive Strategy & Competitive Advantage, 1985

OVERVIEW

Corporate Governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

Malaysian Code on Corporate Governance (Revised 2007)

The presence of an effective Corporate Governance framework provides the confidence necessary for the proper functioning of a market economy. Poor governance undermines corporate integrity and can expose the company to risk through fraud and ultimately weakens a company's potential.

The global financial meltdown which was precipitated by the sub-prime mortgage crisis in the US in 2007 underscores the requirement for sound corporate governance so that the interests of stakeholders are not undermined, or even worse, eroded. While it is fortunate that Bursa Malaysia Securities Berhad (Bursa Malaysia), Securities Commission and various other regulators in Malaysia have established standards and guidelines on corporate governance, what is of critical importance is that these standards and guidelines are fully complied with.

The Board members are delighted to state that Pharmaniaga, since its inception in 1998, has been steadfast in its adherence to the concepts of sound corporate governance: openness, honesty and transparency, integrity, independence, accountability, responsibility, fairness, reputation and social responsibility.

Pharmaniaga's Corporate Governance structure has been built based on the Principles and Best Practices prescribed in the Malaysian Code on Corporate Governance (Revised 2007) (the Code) as well as in line with international best practices.

Pharmaniaga recognises the importance of Corporate Governance in enhancing stakeholders' value, increasing investors' confidence, establishing customers' trust and building a competitive organisation to support its **Vision**: *"The preferred pharmaceutical brand in regional markets"* and **Mission**: *"Provide quality products and superior services by professional, committed and caring employees".* To achieve this, the Group is guided by its High Performance Culture (HPC) Shared Values, simply known as **TOPIC** (**T**eamwork • **O**pen Communication • **P**assion for Excellence • **I**ntegrity & Honesty • **C**aring). The Board of Directors (Board) is fully supportive of this Vision and Mission, as well as the HPC Shared Values and have given full commitment to ensure the achievement of this via high standards of Corporate Governance throughout the Pharmaniaga Group. Moreover, the sustainability of the Group's future is contingent on a strong adherence to high standards of Corporate Governance.

The Board has consistently throughout the year, instituted appropriate framework and structure to develop sound Corporate Governance in the Group.

As a leading pharmaceutical company in the stable of Government-Linked Companies (GLC) in Malaysia, Pharmaniaga, apart from abiding to the principles and best practices as set out in the Code, also subscribes to the principles introduced by the Putrajaya Committee on GLC High Performance (PCG) which comprise the Guidelines to Enhance Board Effectiveness. These Guidelines, as codified in the Green Book and launched on 26 April 2006, reinforce the recommendations contained in the Code.

The PCG recommended changes and improvements to the governance of GLC based on the following objectives:

- Refocus the role and mandate of GLC Boards
- Strengthen GLC Board composition
- Intensify GLC Board performance management
- Upgrade Board structure and processes

Pharmaniaga also subscribes to the Bursa Malaysia Securities Berhad Listing Requirements (BMLR) as well as international best practices.

Pharmaniaga has also taken cognizance of and adhered to the Code which came into effect on 1 October 2007, aimed at strengthening the roles of the Board of Directors and Audit Committee and the effective discharge of their respective roles and responsibilities. The Code generally sets out principles and best practices on structure and processes that companies may use in their operations towards achieving the optimal governance framework. Key amendments under the Code include key amendments to strengthen the board of directors, to enhance the independence and quality of the audit committee and internal audit function with its overall purpose to align Malaysia's Corporate Governance framework with globally accepted best practices. The Government Linked Companies Transformation Program (GLCT) is also high on the agenda to enhance Corporate Governance. Pharmaniaga has embarked on several initiatives as set out in the Guidelines to Enhance Board Effectiveness which are published in the Green Book.

The Board is pleased to share the manner in which the principles of the Code were applied throughout the Pharmaniaga Group and the extent to which Pharmaniaga has complied with the Best Practices of the Code during the financial year ended 31 December 2008. The Board believes that the Principles and the Best Practices as outlined in the Code have, in all material respects, been adhered to and complied with.

COMPLIANCE STATEMENT

The Board will continue to strengthen governance practices to safeguard the best interests of shareholders and other stakeholders. The Company has fully complied with the Principles and Best Practices of the Code and its amendments, which took effect on 1 October 2007. This statement, together with the Statement on Internal Control, sets out the manner in which Pharmaniaga Group has applied the Principles and Best Practices of the Code.

The Board considers that it has complied throughout the financial year with Best Practices as set out in the Code, except for disclosure on Directors' remuneration that complies with Appendix 9C Part A (10)(a) and (b) Chapter 9 of the Listing Requirements.

Best Practices adopted by Pharmaniaga Group over and above the recommendations prescribed in the Code are those recommended by PCG and other global standards, which the Board has deemed to be suitable for the Group.

The Board has the ultimate and overall responsibility for corporate governance, strategic direction and overseeing the investments of the Company.

BUILDING WORLD-CLASS BOARD

Optimum Board Composition

In 2008, the Board consisted of 8 members, comprising a Non-Independent Non-Executive Chairman, an Executive Director designated as the Managing Director (MD), 3 Non-Independent Non-Executive Directors and 3 Independent Non-Executive Directors. The Board believes that its current size, which is in line with the GLC guidelines, is appropriate for its Vision and Mission.

Statement on Corporate Governance (cont'd)

To ensure good governance it is necessary to form the right mix of board members and to make sure it works effectively and efficiently. The size of the Board is appropriate for the complexity and scale of operations of the Group. The optimum proportion of Independent Non-Executive Directors provides for effective check and balance and able to carry sufficient weight in the functioning of the Board. There is a strong cadre of independent and non-executive directors in our unitary board structure. The present size and composition of the Board is optimum and well balanced. As presently constituted, the Board has the stability, continuity and commitment as well as capacity to discharge its responsibilities effectively.

The Board of Pharmaniaga Berhad, being the ultimate decision-making body, leads and controls the Group. There is diversity among the Board members, as the Board comprises members from various fields of knowledge ranging from business, industry, financial, technical, corporate, management and government relations. This well-balanced pool of expertise contributes towards making the Board effective, able and competent in discharging its duties and responsibilities.

In terms of Board structure, composition and processes, Pharmaniaga has an explicit design that is consistent with requirements mandated by the BMLR and as prescribed by the Principles and Best Practices of the Code.

The Board believes that it has the right blend of skills, knowledge and business experience around the Board table given the size and nature of the business of the Pharmaniaga Group.

The size of the Board is in line with the recommendation of the GLC Green Book, which states that the Board is preferably no larger than 10 directors.

Influence is balanced within the Board by virtue of 7 Non-Executive Directors whose skills and business experience are invaluable in constructively challenging and developing the Group's strategy and direction. No one individual or group has unrestricted powers of decision. The Board is satisfied that all of the Independent Non-Executive Directors were independent throughout the year, being free from any relationship with the executive management which could result in any conflict or affect their independent judgment, and that they remained independent in character and judgment. All Directors take decisions objectively and in the best interest of the Company. The balance of skills and experience of the Board is continually reviewed through the annual Board Effectiveness Assessment.

The Board continued to be well balanced, in which the substantial shareholders are adequately represented, whilst the interest of the minority shareholders are represented by the Independent Directors. Although all the directors have an equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conducts its business.

Datuk Sulaiman bin Daud is the Senior Independent Non-Executive Director. He acts as a facilitator for communication between the shareholders, the public and the Board and he ensures that the Board is aware of any shareholder concerns not resolved through the existing mechanisms of investor communication. He also represents and acts as a spokesperson for the Independent Directors as a group.

The Independent Directors provide considerable depth of knowledge collectively gained from experience in a variety of public and private companies. The Independent Directors do not engage in the day-to-day management of the Pharmaniaga Group and do not participate in any business dealings and are not involved in any other relationship with the Group, which could materially interfere with the exercise of their independent judgement as defined under Rule 1.01 BMLR : Definitions & Interpretations. This is to facilitate the Independent Non-Executive Directors in discharging their duties and responsibilities effectively and also to avoid conflict of interest situations. They provide unbiased and independent views, advice and judgement in ensuring that the strategies proposed by the management are fully deliberated and examined, in the interest of shareholders,

employees, customers and the many communities in which the Group conducts its business. The presence of Independent Directors fulfills a pivotal role in corporate accountability.

In addition, the Board has set up a Board Advisory Panel which consists of local and international industry experts in order to enhance the Board in providing an independent view and advice with regards to the pharmaceutical and biotechnology industries.

Code of Ethics & Business Conduct

It is essential for corporations to promote, develop and cultivate an ethical system of doing business that has high moral and ethical standing among all levels of the organisation structure, namely its executives, the workforce and the Board of Directors. The essential key words in developing a morally sound and ethical system fall into the following categories:

- Ethics
- Codes of Best Practices
- Building an integrity system
- Implementation of governance system with appropriate ethical, procedures
- Continuous review and updating

The Directors in the Group continue to adhere to a code of ethics based on the code of conduct expected of Directors of a public listed company as set out in the Companies Act 1965 and the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia.

The Board's Role

The unique blend of various backgrounds of the Board brings depth and diversity in expertise and perspectives to the leadership of a highly regulated pharmaceutical business. Directors' biographies appearing on pages 32 to 35 inclusive, of this annual report, represent an impressive range of experiences, which are vital to providing strategic direction and guidance in the management of a public listed Government-Linked pharmaceutical company.

The Board has assumed the following 6 core responsibilities in discharging its stewardship:

- Review and adopt a strategic plan
- Oversee and evaluate the conduct of the Group's business so that the business is being properly managed
- Identify and manage principal risks by implementing appropriate systems
- Succession planning : appointing, training, fixing the compensations of and where appropriate, replacing senior management
- Develop and implement an investor relations program
- Review adequacy and integrity of the Company's internal control system, management information systems (MIS), including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Apart from the above specific responsibilities, the Board also takes full, independent responsibility and accountability for the smooth functioning of core processes, involving board governance, business value and ethical oversight. To facilitate effective discharge of these responsibilities, dedicated Board Committees have been established with clear terms of references, comprising Directors who have committed time and effort as members. The Board Committees are chaired by Non-Executive Directors who exercise their leadership with the benefit of in-depth knowledge of the industry.

The Board meets regularly. In addition to 5 scheduled meetings during the year to decide on core issues, 1 special meeting was also held where immediate decisions were warranted. This includes consideration of proposals in relation to acquisition, joint venture and quarterly financial results.

The Directors are at liberty to obtain independent professional advice when deemed necessary for the proper discharge of their duties; such professional fees will be borne by Pharmaniaga.

Statement on Corporate Governance (cont'd)

The Board recognises that there is value in each Board member's knowledge and experience in providing effective oversight for the Company. The Board's role includes providing effective leadership and setting of the Group's strategic business directions. It assesses business opportunities and seeks to ensure that appropriate controls are in place to assess and manage risks. It is responsible for reviewing management's performance and oversees senior management appointments and succession planning within the Company. The Board is responsible for setting the Company's values and standards, ensuring Pharmaniaga's obligations to shareholders are fulfilled.

Within the powers accorded to the Company's Articles of Association and Discretionary Authority Limits (DAL), the Board is charged with among others, the development of corporate objectives, review and approval of corporate plans, annual budgets, acquisitions and disposals of undertakings and properties of substantial value, major investments and financial decisions, changes to the management and control structure within the Group including key risk management, treasury, financial and operational policies and delegated authority limits. The Board has a formal schedule of matters which are reserved for its decision, including approval of the strategic direction of the Group and policy issues, approval of quarterly results and annual financial statements, major acquisitions and disposals, major capital expenditure, related party transactions, dividend policy, changes to membership of the Board and its committees and overall governance issues. Matters outside the scope of the formal schedule are decided by the Board Committees and the management in accordance with delegated authorities approved by the Board.

The Board members are mindful to apply high ethical standards, acting in good faith, with due diligence and taking into account the interests of all stakeholders, in their decision making. The Directors, in discharging their duties and responsibilities, are constantly mindful of the public interests and concerns of the business community, particularly those of customers, shareholders and all other stakeholders.

The role and function of the Board, as well as differing roles of Executive Director and Non-Executive Directors, are separated and clearly defined and documented in the Board Policy Manual.

Chairman, Managing Director & Senior Independent Director

There is a clear division of responsibilities between the Chairman and the Managing Director. The Chairman is primarily responsible for organising the business of the Board, setting the agenda and ensuring the effective running of the Board. He facilitates the contribution of the Non-Executive Directors and the constructive relations between the Executive and Non-Executive Directors. The Managing Director is primarily responsible for managing and supervising the day-to-day businesses of the Group and the development and implementation of strategy.

The terms of reference of the Non-Independent Non-Executive Chairman are distinct and separate from the duties and responsibilities of the Managing Director. This ensures a balance of power and authority in an effective Board which, in case of Pharmaniaga, is both supportive of and challenging for the Management. The Managing Director is also obliged to report and discuss at Board meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory developments.

The Directors have a continuing responsibility to determine whether they have a potential or actual conflict of interest in relation to any matter, which comes to the Board. The Group has adopted a process whereby each Director is required to declare should he have any interest in transactions tabled at regular board meetings of the Group and will then abstain himself from any decision making process.

Board Effectiveness Assessment

The formal Performance Evaluation Framework (Framework) adopted in 2006, comprises a Board Effectiveness Assessment (BEA) and a Board of Directors' Self/Peer Assessment. The Framework is designed to maintain cohesiveness of the Board and, at the same time, serves to improve the Board's effectiveness.

The broad performance indicators, on which Board Effectiveness is evaluated, include board composition, board administration, board accountability and responsibility and board conduct. The performance indicators for individual directors include their interactive contributions, understanding of their roles and quality of input.

The Board believes it is appropriate to undertake a regular performance evaluation. This exercise covered the performance and effectiveness of the Board, its Committees and individual Directors, using an internal formal process of evaluation, the approach of which is appropriately tailored. Every Board member is provided with the results of the self-evaluation marked against peer evaluation to allow for comparison. The Board has determined that this process is appropriate to enable first hand and full and honest input from individual Directors to be obtained each year.

Pharmaniaga's BEA played an important role in drawing the Board's attention to key areas which needed attention.

Succession Planning

Ensuring that the Group has the right people running it is one of the Board's core governance duties. A review of management resources is carried out annually in conjunction with the annual remuneration review. The Group has in place a career development plan including succession plan at all levels of management. The annual management review process is the key to performance improvement as well as the succession plan.

Pharmaniaga strongly acknowledge the need to make contingencies for appointing a new Managing Director sooner than expected (for example, because of an underperformance by the company, loss of investors' confidence, or illness). Succession planning is an area that requires sensitive handling, both with the incumbent Managing Director and the potential successors. If there is an overt battle for succession or senior staff believes that they are no longer contenders, major difficulties may arise.

The Group's succession planning involves key individuals being given opportunities to gain a breadth of experience within the business, as part of an executive development program, and the chance for them to be visible to the Board if they are not a member to it.

Appointments to the Board

Appointments to the Board are the responsibility of the full Board on the recommendation of the Nomination & Remuneration Committee. Any new nomination received is forwarded to the Board for assessment and endorsement. There is a formal and transparent procedure for the appointment of new Directors, which is made against objective criteria. There has been no new appointment to the Board during 2008.

Governance on Board Meetings & Supply of Information

A Snapshot on Conducting Board Meetings

In conducting board meetings Pharmaniaga upholds the following pillars as listed below :

- Board agenda focusing on the right issues, with long term strategies and shorter term goals
- Papers are distributed so that Directors have sufficient time for perusal
- Regular meetings of 5-6 times a year, with specific annual retreats to discuss strategic issues
- High attendance at meetings is expected and achieved
- All directors would come to meeting well prepared
- Size of board facilitates effective decision making
- Full discussion at board meetings before major decisions taken
- All board members feel able to and do contribute at meetings
- Effective chairmanship focusing discussion around principal issues in each agenda paper

Statement on Corporate Governance (cont'd)

Board meetings are conducted regularly, at least 5 times a year. Between meetings, the Directors can be in frequent contact to advance the Group's business and if necessary, additional board meetings can be called whenever warranted by situations such as to deliberate urgent proposals or matters that require the expeditious direction of the Board.

At the quarterly Board meetings, the Board reviews management reports on the business performance of the Group and major subsidiaries, and reviews, inter-alia, the results compared to the preceding quarter, year-to-date and previous year's corresponding period, and also whenever relevant, the comparison against the pro-rated business targets and against the industry. As part of the integrated risk management initiatives, the Board also peruses the decisions and salient issues deliberated by Board Committees. Members of the Board deliberate, and in the process, evaluate the viability of business propositions and corporate proposals and the key risks that have significant impact on Pharmaniaga's business or on its financial position, and the measures to mitigate such risks.

The Chairman of the Audit Committee would inform the Directors at Board meetings, of any salient matters noted by the Audit Committee and which require the Board's notice or direction.

The Board meetings are chaired by the Non-Independent Non-Executive Chairman, Dato' Mohamed Azman bin Yahya.

Board meetings are conducted in accordance to a structured agenda. In line with the GLC Green Book, the agenda for each meeting and papers relating to the agenda items are disseminated to all Directors at least 5 days before the Board meeting. This is to accord sufficient time for the Directors to review the Board papers and seek clarifications that they may require from the Management or the Company Secretaries.

The Board papers are comprehensive, with specific format and encompass all aspects of the matters being considered, enabling the Board to look at both quantitative and qualitative factors so that informed decisions are made. In cases where the contents are lengthy, an Executive Summary is being provided. Progress on key initiatives are presented at every meeting and properly minuted.

The presentation of Board papers is led by the Managing Director who provides comprehensive explanation of significant issues and briefs the Board on the activities of the Group while the Senior General Manager, Group Corporate Services presents updates on the Group's financial performance. These presentations help increase the Non-Executive Directors' understanding of the business.

All proposals and recommendations made by the Management are tabled and deliberated comprehensively by the Board before any decision is made.

The Board recognises that the Chairman is entitled to the strong and positive support of the Company Secretaries in ensuring the effective functioning of the Board. All Directors have access to the Group's information through the management team and the services of the Company Secretaries, who serve, guide and advise the Board regularly on any updates to the statutory and regulatory requirements and any other matters related to the affairs of the Group. The Directors may request to be provided with further insights, clarifications and information on matters tabled at Board meetings. The Board members are encouraged to undertake site visits. The Chief Operating Officer and Senior Management Officers are invited to attend the Board meetings to update the Board on their respective areas of responsibilities and business, and also to brief and provide details to the directors on proposals submitted for the Board's consideration. The Directors are notified of any corporate announcements released to Bursa Malaysia Securities Berhad and any investment in Pharmaniaga's listed subsidiary. The Company Secretaries also serve notice to Directors on the closed period for trading in Pharmaniaga shares, in accordance with the black-out periods stated in Chapter 14 BMLR : Dealings in Securities. The Board and its Committees have full and unrestricted access to all information necessary in the furtherance of their duties, which is not only quantitative but also other information deemed suitable such as customer satisfaction, product and service quality, market share and market reaction.

The commitment and dedication of the Board of Directors are reflected from the attendance record which well surpassed the 50% attendance requirements of the BMLR as tabulated below:

No	Directors	Type	Meetings Attendance
1	Dato' Mohamed Azman bin Yahya	Non-Independent Non-Executive Chairman	6/6
2	Mohamad bin Abdullah	Managing Director	6/6
3	Datuk Sulaiman bin Daud	Senior Independent Non-Executive Director	6/6
4	Dato' Ahmad Pardas bin Senin	Non-Independent Non-Executive Director	5/6
5	YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	Independent Non-Executive Director	6/6
6	Ismael Fariz bin Ali	Non-Independent Non-Executive Director	4/6
7	Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Haji Salleh	Independent Non-Executive Director	6/6
8	Oh Kim Sun	Independent Non-Executive Director	6/6

Board meetings attendance analysed into the type of Directors:

	% Attendance	
Date of Board Meeting	Independent Directors	Non-Independent Directors
27 February 2008	100%	100%
4 April 2008	100%	80%
28 May 2008	100%	100%
14 August 2008	100%	80%
20 October 2008 (Special)	100%	80%
24 November 2008	100%	100%

Statement on Corporate Governance (cont'd)

Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year so as to enable Directors to plan ahead and fit the year's Board meetings into their respective schedules.

In order to maintain confidentiality, issues or corporate proposals which are material information and price-sensitive, would be handed out to Directors at the Board meeting itself, with written papers being tabled at the meeting.

The Directors will make a declaration to that effect at the Board meeting in the event that they have interest, direct and indirect, in the business proposals considered by the Board. The interested Director shall abstain from deliberations and decisions of the Board on the transaction. This process is duly recorded in the minutes of the proceedings. In the event a proposal is required to be approved by shareholders, the interested Directors will abstain from voting in respect of their shareholdings in Pharmaniaga on the resolutions relating to the corporate proposal, and will further undertake to ensure that persons connected to them similarly abstain from voting on the resolutions.

Minutes of each Board meeting are circulated to all Directors within a month after the meeting, for their review and comments prior to confirmation of the minutes before the commencement of the next Board meeting. The Directors may request for clarification or raise comments on the minutes prior to its confirmation as a correct record of proceedings of the Board.

Directors' Training

Consistent with the recommendations of the Code, the Board views directors' trainings as an integral element of the process of appointing new directors. The Nomination & Remuneration Committee would coordinate with the MD's Office and Organisational Developmental Division to ensure that there is an orientation and education program for new Board members in order to provide the Director with first-hand knowledge of the Group's operations.

All Directors have attended the Mandatory Accreditation Program as required by BMLR. The training must be one that aids the Director in the discharge of his duties as a Director of a listed GLC. Specific trainings are also provided to the Directors, relevant to the issues affecting the Group.

The Directors have participated in conferences, seminars and training programs to keep abreast with inter-alia pharmaceutical issues, updates and future challenges, current and future developments in the region and global pharmaceutical markets. These provide platforms to disseminate emergent strategic directions and ideas as well as intellectual directions which enhance the knowledge and relevance of the Directors.

The Directors possess the commitment to quality and to create value by being relevant at all times, consistent with evolving changes and challenges in the pharmaceutical environment, domestically, regionally and also globally.

The Board of Directors of each listed issuer has a duty to evaluate and determine the training needs of its Directors on a continuous basis.

UEM Group, the immediate holding company of Pharmaniaga had also organised in-house training programs locally and regionally, facilitated by industry experts, for Directors of listed companies in the UEM Group and senior management.

Based on the feedback on the Board/Board Committees Half Year Assessment Survey 2008 (1/2008 BEA) and the status of the progress of Actionable Improvement Program, it was reported that the trainings requested by the Board are as follows :

- international trend in healthcare
- international merger & acquisition (case study style)
- exposure in overseas business, risk and legal environment especially in China, Indonesia and new emergent economies.

Following thereto, a list of the relevant trainings as requested above have been recognised and circulated during the Company's 1/2009 Nomination & Remuneration Committee Meeting in February 2009 for the Directors' onward action. This task comes under the joint responsibilities of MD's Office, Company Secretaries and Organisational Development Division. In this case, specific trainings are also provided to the Directors, relevant to the issues affecting the Pharmaniaga Group.

The training needs of the Board are annually reviewed. The trainings are developed and tailored to the Directors' needs through in-house and external programs. During the year, the Directors have attended trainings and courses as listed below:

Corporate Governance	• Director's Gathering for UEM Group of Companies : Post Election Scenario, Director's Duties and Liabilities Beyond Compliance, Director's Performance Evaluation - Building a High Performance Board *(in-house, held at UEM Academy)* • UEM Group Chairman's Forum
Leadership	• Malaysian Director's Academy (MINDA) Luncheon Talk 2008 : Chairman's Forum • High Performance Culture (HPC) Workshop for Senior Management • HPC Workshop for Senior Management - Follow Up • HPC Review Session • Khazanah Megatrends Forum 2008
Investment	• Gulf Venture Capital 2008 (Riyadh, Saudi Arabia) • Islamic Venture Capital (VC) & Private Equity, Kuala Lumpur, organised by Islamic Banking & Finance Institute Malaysia
Pharmaceuticals & Biotechnology	• Leadership & Strategy in Pharmaceuticals and Biotech, Harvard Business School • IFA Crossroads Asia-Pacific 2008, Melbourne, Australia
Taxation	• Malaysia Packaging Berhad Single Tier Tax System, Horwath CPE Sdn Bhd
Market Strategy	• Indonesia : Market Outlook & Entry Strategies

Re-appointment & Re-election of Directors

The Articles of Association of Pharmaniaga Berhad provide that all Directors are required to go forward for re-election by shareholders at the Annual General Meeting (AGM) at intervals of no more than 3 years, together with all new Directors appointed since the previous AGM. The Articles of Association also state that one-third of the Directors retire from office at each Annual General Meeting and are eligible to offer themselves for re-election. Section 129(2) Companies Act 1965 requires that all Directors aged 70 or above go forward for re-appointment each year. Retiring Directors may offer themselves for re-election or re-appointment to hold office until the next AGM. Each of these Directors who are due to go forward for re-election or re-appointment at this year's AGM has been identified in the Notice of AGM. The Managing Director also ranks for re-election by rotation. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement accompanying the Notice of AGM.

Number of Directorships

As verified by the method of computation of number of directorships prescribed in BMLR, each of the Directors of the Company holds not more than 25 directorships in companies ñ a maximum of 10 directorships in public listed companies and 15 in non-listed companies. This ensures the Directors' commitment, resources and focus for an effective input to the Board. The directorships of each Director are set out in the Profile of Directors.

Directors' Remuneration

The framework for the remuneration of Executive and Non-Executive Directors is reviewed regularly against market practices. The remuneration of Non-Executive Directors is based on a standard fixed fee. Additional allowances are also paid in accordance with the number of meetings attended during the year.

Statement on Corporate Governance (cont'd)

The Managing Director is paid a basic salary, annual performance related bonus, contribution to the national pension fund and other customary benefits as appropriate to Senior Management members, benefits-in-kind such as private medical care, car allowance and fuel, Group's club membership and share options. The package is designed to support the Group's strategy and to provide an appropriate incentive to maximise individual and corporate performance, whilst ensuring that overall rewards are market competitive. Pharmaniaga carries out salary benchmarking of equivalent jobs in the market of similar-sized companies to arrive at appropriate base pay levels.

The Managing Director's remuneration is benchmarked against the remuneration of CEOs of other GLCs, taking into account the job size as determined by Hay Management Consultant (M) Sdn Bhd. Subsequently, other salary benchmarks were also considered with adjustments provided for the industry and its regional exposure. For the senior management directly reporting to the Managing Director, the same salary benchmarks are also done but against both internally equivalent jobs and also external jobs in similar-sized companies.

Pharmaniaga has also implemented guidelines set out in the Blue Book applicable to GLCs : "Intensifying Performance Management Practices and Performance-linked Compensation" introduced by PCG. According to these guidelines, a significant portion of Pharmaniaga's compensation package for executives has been made variable in nature, to be determined based on performance. This is determined by how well the individual has performed in the year based on the approved individual Key Performance Indicators (KPIs), which are aligned to the Group Scorecard. The actual size of the Company's performance bonus pool is dependent on how well the Group has performed on its Scorecard and will be determined and endorsed by the Board.

The Managing Director and his direct reports would be rewarded according to a combination of how well they have delivered their KPIs and their ratings on their 360 degrees feedback, which is then moderated within a peer group in order to arrive at a relative ranking according to a normal distribution curve.

The remuneration of the Non-Executive Directors takes the form of fees which is agreed by the executive members of the Board and approved by the shareholders. The fees are designed to attract experienced individuals and reflect the responsibilities of the role. The fees stated are in respect of all responsibilities undertaken by the Non-Executive Directors, including membership of Board Committees. The Directors are also covered under the Directors' and Officers' Liability Insurance Policy. Further details of the Directors' remuneration are given on page 55.

The Nomination & Remuneration Committee recommends to the Board the framework and the remuneration package for the Executive Director and Senior Management. The determination of the remuneration of the Non-Executive Directors is a matter for the Board as a whole.

Further details of Directors' remuneration are set out below and in Note 6 (page 160) to the financial statements.

Remuneration Package

The remuneration package of the Directors is as follows:

a Basic Salary

The basic salary (inclusive of statutory employer contributions to the Employees Provident Fund) for the Managing Director is recommended by the Nomination & Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for a similar position in a selected group of comparable companies.

b Fees

The Board, based on the fixed sum as authorised by the Company's shareholders, determines fees payable to Non-Executive Directors after considering comparable industry rates and the level of responsibilities undertaken by Non-Executive Directors.

c Bonus Scheme

The Company operates a bonus scheme for all employees, including the Managing Director. The criteria for the scheme is dependent primarily on the level of profit achieved from the Company's business activities as measured against the targets and that of previous year, together with an assessment of each individual's performance during the period. Bonus payable to the Managing Director is reviewed by the Nomination & Remuneration Committee and approved by the Board.

d Benefits-in-kind and other Perquisites

The Chairman is entitled to a car allowance and a driver. The Managing Director is entitled to the provision of leave passage, car allowance, driver, medical (inclusive his immediate family members) and dental coverage. The Chairman and other Directors are also entitled to medical and hospitalisation coverage inclusive of outpatient, clinical and specialist treatment and dental (excluding family members).

e Retirement Plan

Contributions are made to the Employees Provident Fund, the national mandatory defined contribution in respect of the Managing Director.

f Service Contract

The Managing Director shall sign a service contract for a period of 3 years that provides for notice period for the termination of the Managing Director's service contract of 3 months. As a director to the Board, the Managing Director shall retire from the Board at least once in three (3) years but shall be eligible for re-election.

g Director's Share Options

The Managing Director's share options during the year ended 31 December 2008 is set out below.

Disclosure on Directors' Remuneration & Share Options

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2008 are as follows:

Directors	Basic Salaries, Bonus & EPF (RM)	Fees (RM)	Allowance & other emoluments (RM)	Sub-Total (RM)	Perquisites (RM)	EES RM)	Benefits-in-kind (RM)	Total (RM)
Executive Director	961,212	–	34,800	996,012	56,605	1,572,880	7,800	2,633,297
Non-Executive Directors	–	356,700	62,300	419,000	5,194	–	7,200	431,394
Total	961,212	356,700	97,100	1,415,012	61,799	1,572,880	15,000	3,064,691

The remuneration paid to Directors during the year, analysed into bands of RM50,000, which complies with the disclosure requirements under BMLR is as follows:

	No. of Directors	
Remuneration Band	**Executive**	**Non-Executive**
RM50,000 and below	–	2
RM50,001 - RM100,000	–	4
RM100,001- RM150,000	–	1
RM950,001 - RM1,000,000	1	–

Note: None of the Directors' remuneration falls within the RM150,001 - RM950,000 band.

Statement on Corporate Governance (cont'd)

Below is the detail of the EES* granted to the Directors:

		No. of Unexercised EES	
Name	**Type**	**31 December 2008**	**31 December 2007**
Mohamad bin Abdullah	Managing Director	–	667,900
Dato' Ahmad Pardas bin Senin	Non-Executive Director	–	5,240,000

* EES - Employee Equity Scheme of UEM World Berhad, the former immediate holding company of Pharmaniaga Berhad. The Scheme has expired on 22 October 2008.

Further details on the above EES are set out on pages 141 to 142.

Board Committees

The Board has established several Board Committees whose compositions and terms of reference are in accordance with the best practices prescribed by the Code. The Board has delegated specific responsibilities to the respective Committees of the Board which operate within clearly defined terms of reference.

The Board Committees in Pharmaniaga Group are as follows:

- Board Advisory Panel
- Audit Committee
- Risk Management Committee
- Nomination & Remuneration Committee
- Investment Committee
- Employees' Share Option Scheme (ESOS)

Full report on the above Committees are set out on pages 57 to 69.

WHISTLEBLOWER POLICY

There is a strong correlation between Corporate Governance and whistleblowing. In recognition of the risks taken by honest whistleblowers, the Securities Commission in Malaysia has developed new securities law to protect professional people in the accountancy profession engaged as financial controllers, internal auditors and external auditors to whistleblow and including any official in management, such as the company secretary to be accorded legal protection.

The amendment to the Companies Act 1965 in August 2007 provides for an officer of a company to report to the Companies Commission of Malaysia on corporate wrong doings, fraud or defaults against the provision of company law in good faith. The officer shall be protected by law from being punished, demoted or be disciplined by the employer.

This practice gained prominence since the passing of the Sarbanes Oxley Act 2002 in the United States and previously, the Public Interest Disclosure Act 1999 in United Kingdom.

Since the introduction of Pharmaniaga's Code of Conduct, the employees have become much more aware of what is acceptable business conduct and become better acquainted with the channels through which reports of violation of the Code of Ethics can be made. Adequate protection is provided for whistleblowers against reprisals.

BOARD ADVISORY PANEL

CHAIRMAN

YBhg. Tan Sri Musa bin Mohamad

Tan Sri Musa, a Malaysian, is a pharmacist and both a former Minister of Education as well as Vice Chancellor of Universiti Sains Malaysia (USM).

MEMBERS

Prof. Dr. V. Navaratnam
Senior Advisor

Prof. Dr. V. Navaratnam, a Malaysian, is a Professor of Clinical Pharmacology & Addiction Studies (USM) and Head of National Centre for Drug Research.

MEMBERS

Dr. Piero L. Olliaro
International Advisor

Dr. Piero, an Italian, Manager of Task Force for Research on Drug Resistance and Policies (RAP); and is a member of the editorial and advisory boards of the Cochrane Infectious Diseases Collaboration, Trends in Parasitology, Médicine Tropicale and BioMed Central.

MEMBERS

Dr. Yves Champey
International Advisor

Dr. Yves Champey, a French, is an Advisor to the French Government on Biotech & Healthcare. He is the Founding President - Drugs for Neglected Diseases Initiative (DNDi) and former Senior Vice President of Rohne Poulenc.

The Committee was established on 21 November 2007.

Objective

- In relation to healthcare industry, to assist and advise the Management Committee and Board of Directors in fulfilling its obligations by receiving reports and making recommendations to, in respect of the industry which is pharmaceutical and biotechnology and matters related thereto.
- Plays a key role in the Business Expansion & Growth strategies of the Pharmaniaga Group by reviewing the viability of proposals or projects or investments at the initial stages and providing appropriate direction to the Investment Committee and Board.

Composition

The Panel shall comprise of a Chairman, a Senior Advisor and 2 International Advisors.

The Chairman of the Panel shall be nominated by Pharmaniaga at its discretion.

All Panel members including the Chairman will hold office as determined by Pharmaniaga.

Panel members may relinquish their membership with prior written notice to the Chairman.

In the event of any vacancy in the Panel it must be filled at Pharmaniaga's discretion.

The Panel consists of local and international experts in pharmaceutical and biotechnology fields.

Statement on Corporate Governance (cont'd)

Secretary

The Legal & Secretarial will also act as the Secretariat to the Panel.

Duties and Responsibilities

The duties and responsibilities of the Panel, among other things, shall include:

- To review and recommend to the Management Committee and Board the direction and priorities of the pharmaceutical and biotechnology industry.
- To make recommendations on the mechanisms, capabilities and procedures that will enhance company's competitiveness in the industry.
- To make assessment Management's assumptions, priorities, directions of actions and give guidance for improvement.
- To advise on knowledge and information about current development, regulatory requirements, opportunities available according to relevant expertise.
- To receive reports, deliberate and decide on the compliance with the overall pharmaceutical and biotechnology policies and strategies. Subsequently to report the findings and recommendation to the Management Committee and Board.
- At the product/pharmaceutical evaluation stage, upon recommendation by the Management Committee.
- Following the Detailed Appraisal/Evaluation, to review and recommend to the Investment Committee and Board for final decision of the product/ pharmaceutical proposals.
- To review other investment and R&D manufacturing matters as the Investment Committee and the Board deem appropriate and in the best interest of the Company.

Meetings

- The full panel (inclusive of international and local panel) shall meet at minimum once a year.
- Local Panel shall meet on quarterly or as and when required by the Secretary and authorisation by the Chairman.
- The Chairman has the right to invite other personnel or parties to the meeting of the Committee.
- Reasonable notice of meeting and the business to be conducted at the meeting shall be given to members together with the relevant documents.
- The quorum for any Committee meeting is two (2) members with the Chairman having the sole executive decision.
- The Secretary is responsible for circulating the meeting agenda and supporting documents to all members of the Committee and any other person as advised by the Chairman. The Secretary shall also prepare minutes for each meeting.
- Committee members must declare their interests in any matters that are tabled before it and abstain from deliberation of the said matter.

Report to the Board

The Committee shall report its recommendations to the Investment Committee and/or Board and where appropriate verbal presentation will be conducted.

Summary of Activities for 2008

- Reviewed the Product Pipeline Strategy
- Reviewed manufacturing strategy of Pharmaniaga
- Reviewed the Herbal Blueprint and research and development (R&D) of Pharmaniaga
- Reviewed the R&D Roadmap of Pharmaniaga
- Reviewed the strategic direction of Pharmaniaga

THE AUDIT COMMITTEE

CHAIRMAN

YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin
Independent Non-Executive Director

MEMBERS

Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh
Independent Non-Executive Director

COMPOSITION

a The Audit Committee was established and appointed by the Board of Directors and shall consist of not less than 3 members, all of whom shall be non-executive directors, a majority of whom must be independent directors.

All 3 members of the Audit Committee of the Board are Independent Non-Executive Directors of the Board.

b **Chairman**

Chairman of the Committee, who shall be approved by the Board of Directors, shall be an independent non-executive director and also a member of the Malaysian Institute of Accountants (MIA).

YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin's professional accounting qualification meets the requirement of Rule 15.10 of the Bursa Malaysia Listing Requirements. He is a member of Chartered Institute of Management Accountants (CIMA), Malaysian Institute of Accountants (MIA) and Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

c At least one member of the Committee:

i must be a member of the MIA; or

ii if he is not a member of MIA, he must have at least 3 years working experience and:

- have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
- be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or

Such member shall also fulfil any other additional requirements, which Bursa Malaysia may from time to time prescribe.

d No alternate director shall be appointed as a member of the Audit Committee.

e All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of Pharmaniaga Berhad.

Statement on Corporate Governance (cont'd)

MEETINGS

a Frequency and Attendance of Meetings

As stated in the Committee's Terms of Reference, meetings shall be held not less than 4 times during the financial year and that the Committee shall convene meetings as and when required at the discretion of Chairman.

The details of attendance of each member at the 4 Audit Committee meetings held during the year of 2008 are tabulated as follows:

	1/2008 25.02.2008	2/2008 23.05.2008	3/2008 11.08.2008	4/2008 14.11.2008
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	■	■	■	■
Datuk Sulaiman bin Daud	■	■	■	■
Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh	■	■	■	■

b Quorum

A quorum shall consist of 2 members, a majority of whom must be independent directors.

c Secretary

The Secretary to the Committee shall be the Company Secretaries, or in their absence, any person appointed by the Audit Committee.

d Reports/Minutes

Minutes of the meeting shall be distributed to each member of the Committee and of the Board.

The Committee will decide on its own administrative procedures to effectively discharge its responsibilities. Minutes of each meeting shall be kept by the Group Company Secretaries as evidence that the Committee has discharged its functions. The Committee Chairman will report to the Board after each meeting.

e Venue

The Committee met 4 times, and all of the meetings were held at the Company's head office/corporate office. The meetings at the head/corporate office enabled the Audit Committee members and operating management to interact and facilitated feedback to improve systems and performance.

f Attendees/Invitees

The Managing Director was present during the meetings at the invitation of the Committee to provide feedback on strategic and operational matters, and also to expedite the implementation and monitoring corrective actions by the operating management. Chief Operating Officer, Senior General Manager, Group Corporate Services, other senior management and representatives of the external auditors shall normally be invited to attend the meetings to deliberate on matters requiring their attention, feedback and corrective actions. Other members of the Board may attend the meetings upon the invitation of the Committee. Additionally, where required, external parties such as lawyers, consultants and merchant bankers were in attendance to brief and explain matters requiring their input and clarification. Commencing 2008, the Group Internal Auditor is required to attend at each of the Audit Committee meeting inclusive of its special meeting, if any.

g Review

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee has carried out its duties in accordance with its terms of reference.

TERMS OF REFERENCE

1 Objectives of the Audit Committee

- To assist the Board to carry out their responsibilities and with the primary objective of assisting the Board of Pharmaniaga Berhad in fulfilling its fiduciary responsibilities relating to corporate accounting, system of internal controls and risk management processes, and management and financial reporting practices of the Group.
- To assure the shareholders of the Company that the Directors of Pharmaniaga have complied with specified financial standards and required disclosure policies developed and administered by Bursa Malaysia and other approved accounting standard bodies.
- In addition, the Audit Committee needs to ensure consistency with Bursa Malaysia commitments to encourage high standards of corporate disclosure and transparency. The Audit Committee will endeavour to adopt certain practices aimed at maintaining appropriate standards of corporate responsibility, integrity and accountability to Pharmaniaga's shareholders.

2 Duties & Responsibilities of the Audit Committee

The following are the main duties and responsibilities of the Committee collectively:

a Recommend to the Board on the appointment and annual re-appointment of the external auditors and their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.

b Discuss with the external auditors before the audit commences, the nature and scope of the audit, the audit plan and ensure co-ordination where more than one audit firm is involved.

c Review the quarterly interim results, half year and annual financial statements of the Company and the Group prior to approval by the Board whilst ensuring that they are prepared in a timely and accurate manner complying with all accounting and regulatory requirements and are promptly published.

d Discuss problems and reservations arising from the interim and final audits and any matter the auditor may wish to discuss in the absence of the management where necessary.

e Review the external auditor's management letter and management's response.

f In relation to the Internal Audit, to review and thereafter report the same to the board the adequacy of the scope, strategic and annual internal audit work plans, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.

g Review any related party transactions and conflict of interest situation that may arise within the Company or the Group and its related companies and ensure that such transactions are undertaken at arm's length, normal commercial, on terms not favourable to the related party that those generally available to the public and are not to the detriment of the minority shareholders and in the best interest of the Company and its subsidiaries.

h Review and approve the Annual Internal Audit Plan and ensuring adequate risk and governance coverage.

i Review the results of the internal audit process and where necessary ensuring that appropriate actions are taken on the recommendations made by the internal auditor.

j Review the terms of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature.

k Engagements:

- Meet external auditors at least twice a year without senior management presence.
- to engage continuously with CEO, Senior General Manager, Finance and Head of Internal Audit.

l Consider other topics as defined by the Board.

Statement on Corporate Governance (cont'd)

3 Powers of the Audit Committee

In carrying out its duties and responsibilities, the Audit Committee will have the following rights:

a Have explicit authority to investigate any matter within its terms of reference;

b Have the resources required to perform its duties;

c Have full, free and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group;

d Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any). Head of internal audit should report directly to audit committee;

e Be able to obtain independent professional or other advice and to invite outsiders with relevant experience to attend the Committee's meetings (if required) and to brief the Committee;

f The attendance of any particular Audit Committee meeting by other Directors and employees of the Company shall be at the Committee's invitation and discretion and must be specific to the relevant meeting; and

g Be able to convene meetings with external auditors, internal auditors or both, excluding the attendance of other directors, executive members of the Committee and employees of the company, whenever deemed necessary.

SUMMARY OF ACTIVITIES (2008)

1 Financial Reporting

- Reviewed the quarterly unaudited financial results of the Company and Group including announcements, before recommending them for approval by the Board of Directors.
- Reviewed the annual audited financial statements of the Company and Group with the external auditors prior to submission to the Board of Directors for their approval.

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

- provisions of the Companies Act 1965
- Bursa Malaysia Listing Requirements
- applicable approved accounting standards in Malaysia
- 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 judgement of the items that may affect the financial statements.

Release of Quarterly Financial Results in 2008

	Date of Issue/Release	No of Days before the Deadline	Bursa Securities Deadline
Annual Report 2008	30 April 2009	61	30 June 2009
2008 Quarterly Results			
1Q2008	28 May 2008	3	31 May 2008
2Q2008	14 August 2008	17	31 August 2008
3Q2008	24 November 2008	6	30 November 2008
4Q2008	26 February 2009	1	27 February 2008

2 Internal Audit

- Reviewed and approved Group Internal Audit (GIA)'s Annual Audit Plan to ensure adequate scope and comprehensiveness of the activities, adequacy of resources and coverage on auditable entities with significant high risks.
- Reviewed internal audit reports issued by GIA and external parties, covering the performance of companies/branches audited in regards to the effectiveness and adequacy of risk management, operational, compliance and governance processes, whereafter 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 management on all significant matters raised. Monitored the corrective actions on the outstanding issues to ensure that all the key risks and control lapses have been addressed.
- Reviewed the Group's 2008 objectives/ plans/budgets.
- Reviewed the staffing requirements of GIA, skills and the core competencies of the internal auditors
- Reviewed effectiveness of audit process, resource requirements for the year and assessed the performance of GIA
- Reviewed internal audit reports which are tabled during the year, audit recommendations made and management's response to those recommendations. Where appropriate, the Committee has directed management to rectify and improve control and workflow procedures based on the internal auditors' recommendations and suggestions for improvement.
- Reviewed GIA's audit methodology in assessing and rating risks of auditable areas and ensured that all high and critical risks were audited annually.

3 External Audit

- Reviewed with the external auditors:
  - their audit plan, audit strategy and scope of work for the year
  - the results of the annual audit, their audit report and Management letter together with Management's response to the findings of the external auditors.
- Assessed the independence and objectivity of the external auditors during the year and prior to the appointment of the external auditors for adhoc non-audit services. The Committee also received reports from the external auditors on their own policies regarding independence and the measures taken to control the quality of their work.
- Deliberated and reported the results of the annual audit to the Board.
- Recommended to the Board the appointment and remuneration of the Group External Auditor.
- Met with the Group External Auditor without the presence of management to discuss any matters that they wish to present.
- During the year the Management, after conducting an internal investigation had uncovered a misappropriation of mories in its subsidiary Pharmaniaga Logistics Sdn Bhd, in which a total of RM15,607 was identified as missing from the daily cash collection. In view of this incident, the Management is reviewing the framework for reporting on fraud incidents.

4 Related Party Transactions

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

Statement on Corporate Governance (cont'd)

5 Annual Reporting

- Reviewed and recommended the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Circular to Shareholders on Related Party Transactions to the Board for approval, and thereafter for disclosures in Annual Report 2008.

6 Risk Management

- Noted and report to the Board on the risk management report by the Risk Management Committee.

The meetings were appropriately structured through the medium of agendas and meeting papers, which were distributed to members with sufficient notification.

INTERNAL AUDIT

The Committee is strongly supported by the Internal Audit Division of UEM Group Management Sdn Bhd (UEMGM) in the discharge of its duties and responsibilities. UEMGM's role is to evaluate and report on the adequacy, integrity and effectiveness of the Group's overall system of internal control. Internal Audit Division provides independent assurance on the adequacy and effectiveness of the risk management, internal control and corporate governance.

UEMGM carried out audit programmes which focused on the management of the Group's significant corporate risks and executed audit plans approved by the Audit Committee. In conducting their independent audit, UEMGM placed emphasis on a risk-based auditing approach. The audit findings and recommendations, which also highlighted areas of non-compliance with the Group's policies, procedures and guidelines, were communicated to the Audit Committee to enable a timely evaluation of the adequacy and integrity of the Group's internal control system.

A structured risk assessment approach is used to examine all of the Pharmaniaga Group's activities and its inherent risks. The high-risk activities in each auditable area are audited annually. Audits are prioritised according to an assessment of the potential risk exposures.

The internal audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, management efficiency, amongst others. These audits ensure that the instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with Pharmaniaga Group's risk management policy.

Internal Audit Division also audits the various computer hardware and application systems and telecommunications network of Pharmaniaga Group.

Detailed audit reports by UEMGM, together with responses by Management, were circulated to the Managing Director and Heads of the respective Divisions of the company.

Further details of the activities of the Internal Audit Division are set out in the Statement on Internal Control.

Statement on Employees' Share Option Scheme (ESOS)

The Audit Committee hereby confirms that during the financial year under review, the allocation of options offered by the Company to eligible employees of the Group complies with the Bye-Laws of Pharmaniaga Employees' Share Option Scheme.

THE RISK MANAGEMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

MEMBERS

Mohamad bin Abdullah
Managing Director

Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh
Independent Non-Executive Director

Stephen Sze Kwong Yew
Chief Operating Officer

Abdul Rahman bin Abdullah Thani
President Director, PT Millennium Pharmacon International Tbk

Ramlan bin Abdul Rahman
Senior General Manager, Group Corporate Services

Errman Zuhady bin Zainal
General Manager, Organisational Development (Appointed wef 16 May 2008)

TERMS OF REFERENCE

This Risk Management Committee (RMC) was established with the primary responsibility of ensuring the effective functioning of the integrated risk management function within the Pharmaniaga Group. RMC assists the Board of Directors to oversee the overall management of all risks covering industry risk, country risk, strategic risk, financial risk, customer risk, product risk, internal processes risk, people risk and information technology risks. The Committee also reviews and evaluates the adequacy of overall risk management policies and procedures and ensures that there is adequate risk reporting of core business activities.

On risk management, the RMC updates the Audit Committee the significant changes in the business and the external environment which affect the key risks. The Audit Committee then reports to the Board on the status of the risk management. The Audit Committee then reports to the Board significant changes in the business and the external environment, which affect the key risks. The Board monitors the implementation of the risk strategies and any changes to the risk profiles are highlighted to the Board for consideration. In this way, the Board will ensure that the risk strategies are progressing according to the implementation plan.

Functions

- to provide oversight, direction and counsel to the risk management process
- to establish risk management guidelines
- to evaluate the structure for the Group risk management, risk management processes and support system
- to consider the half yearly report on risks, major findings and management responses thereto on material issues, highly significant risks, changing environments and required urgent changes in the risk management programmes
- to review and approve action and contingency plans developed to mitigate key significant risks
- to advise the Board on risk related issues and recommend strategies, policies and risk tolerance for Board approval

Statement on Corporate Governance (cont'd)

Meetings

Meetings are held as and when necessary and/or required to review specific matters, and at least twice a year. The RMC had 2 meetings during the financial year ended 31 December 2008. A representative from Group Internal Audit Department UEM Group Management Services Sdn. Bhd. also attended the meetings upon invitation.

SUMMARY OF ACTIVITIES (2008)

- Considered the Pharmaniaga Group Risk Management Report as at 30 June 2008 (1H2008) to the Committee for its deliberation.
- Considered and noted the 1H2008 Risk Management Report of PT Millennium Pharmacon International Tbk (MPI) tabled to the Risk Management Committee and Board of Commissioners of MPI .
- Considered the Pharmaniaga Group Risk Management Report as at 31 December 2007 (2H2007) to the Committee for its deliberation.
- Summary of Risk Review for 2H2008:

Total risks identified	65
New risks identified	0
Changes to the net risks rating	1
Significant risk	19

Top 3 risks :

1 Logistics Division - Due to its significant contribution of revenue, non-renewal of the concession is a major risk.

2 Manufacturing Division - The Group has a new manufacturing facility that is in preparation for production and is subjected to stringent regulatory controls.

3 Medical Equipping Division - The medical equipping business is based on projects, any change in Government procurement policies can affect its order book and bring potential loss of business.

During the year the Management, after conducting an internal investigation had uncovered a misappropriation of monies in its subsidiary Pharmaniaga Logistics Sdn Bhd, in which a total of RM15,607 was identified as missing from the daily cash collection. Appropriate disciplinary action has been taken against the staff involved and in view of this incident, the Management has tightened the controls and procedures and reviewed the framework of reporting on fraud incidents.

NOMINATION & REMUNERATION COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

MEMBERS

Dato' Ahmad Pardas Bin Senin
Non-Independent Non-Executive Director

Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh
Independent Non-Executive Director

The Nomination Committee and Remuneration Committee were merged into a single committee on 28 May 2008.

TERMS OF REFERENCE

Functions

1 To annually examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.

2 To assist the Board in the annual review of the required mix of skills, experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board and disclose the same in the Annual Report.

3 To annually carry out the process to be implemented for evaluating the effectiveness of the Board as a whole, the Committees of the Board and the performance and contribution of each individual Director based on the process implemented by the Board, and to identify areas for improvement.

4 To recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.

5 To ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding 3 years at any one time with the power to reappoint, remove or dismiss thereafter.

6 To identify and recommend new nominees to the Board of Pharmaniaga Berhad and its subsidiaries and associated companies, whether to be filled by Board members, shareholders or executives. It is also to identify and recommend for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination & Remuneration or other Committees. A description/ specification of the new Directors should be drafted before identifying possible candidates. Candidates shall be evaluated against this specification.

7 To identify and recommend Senior Management position ie Chief Operating Officer and Chief Financial Officer and its terms and conditions, for the Board's approval.

8 To consider the following when recommending candidates for directorship:

- skills, knowledge, expertise and experience
- professionalism
- integrity
- ability to discharge functions/responsibilities

9 Set, review, recommend and advise the policy framework on all elements of the remuneration such as reward structure, fringe benefits and other terms of employment of Executive Director and the Managing Director.

Statement on Corporate Governance (cont'd)

10 Advise the Board of the performance of the Managing Director and an assessment of his/her entitlement to performance related pay. The Committee also should advise the Managing Director on the remuneration and terms and conditions of senior management staff holding Grade UT2 and above.

11 Represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior staff.

12 Review the history of and proposals forthe remuneration package of each of the Company's committees.

and such other duties and responsibilities as may be determined by the Board from time to time.

Meetings and Procedures

Meetings are to be held as and when necessary. The quorum for each meeting shall be 2. The Managing Director shall attend and make presentations at meetings, whenever the matter for consideration is not related to his own remuneration. The Committee will decide its own procedures and other administrative arrangements. Minutes of each meeting shall be kept by the Company Secretaries as evidence that the Committee has discharged its functions. The Chairman of the Committee will report to the Board after each Nomination and Remuneration Committee Meeting.

The Committee carries out the annual review of the overall performance of the Executive Director and other Senior Management positions (Grade UT2 and above) whereupon recommendations are submitted to the Board for approval; on the overall remuneration policy such as terms of employment, reward structure and fringe benefits with the aim to attract, retain and motivate individuals of the highest quality. The Committee and the Board ensure that the Group's remuneration policy remains supportive of the Group's corporate objectives and is aligned with the interest of shareholders, and further that the remuneration packages of Directors, Managing Director and key Senior Management officers are sufficiently attractive to draw in and to retain persons of high calibre.

The Committee reviews the performance of the Managing Director annually and submit its recommendations to the Board on specific adjustments in remuneration and/or reward payments that reflect their respective contributions for the year which are competitive and are in tandem with the Group's corporate objectives, culture and strategy.

The Board as a whole determines the remuneration of Non-Executive Directors, and each individual Director abstains from the Board decision on his own remuneration.

The Committee met thrice (3 times) during the year ended 31 December 2008 and all members attended all the meetings.

Summary of Activities (2008)

- Discussed and recommended the Succession Management Plans for Pharmaniaga Group and PT Millennium Pharmacon International Tbk (MPI)
- Discussed and recommended the 2008 Key Performance Indicators (KPIs) of Pharmaniaga Berhad's Managing Director
- Discussed and recommended the new senior management of MPI.
- Discussed and recommended the appointment of the new Chief Operating Officer of Pharmaniaga Berhad
- Reviewed and recommended the feedback on the Board Effectiveness Assessment (BEA) of the Board, various (Board) Committees and peer evaluation for the year 2007.
- Discussed on the status of the progress of Actionable Improvement Program of the Board, following the BEA.
- Recommended the merger of Nomination and Remuneration Committees of Pharmaniaga Berhad
- Recommend the Implementation of Succession and Advancement Planning of Pharmaniaga Berhad
- Discussed and reported the update of the Follow-up Program for High Performance Culture
- Considered and recommended the appointment of the Chief Financial Officer of Pharmaniaga Berhad
- Considered and recommended the training programs for Directors for 2008.
- Considered and recommended the revised terms and conditions of employment for executives and non-executives

THE INVESTMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

MEMBERS

Encik Ismael Fariz bin Ali
Non-Independent Non-Executive Director

Oh Kim Sun
Independent Non-Executive Director

Mohamad bin Abdullah
Managing Director

The Investment Committee assists the Board in fulfilling its obligations by receiving reports, evaluation and making recommendations to, or where authorised decisions on behalf of, the Board in respect of investments and matters related thereto. The Investment Committee also plays a key role in the Business Expansion and Growth strategies of the Group by reviewing the viability of proposals or projects or investments at the Initial Project Assessment Stage and providing appropriate direction to the Management.

Functions

- To review and recommend to the Board the investment policies and strategies.
- To receive quarterly reports, deliberate and decide on the compliance with the overall investment policies and strategies. Subsequently to report the findings to the Board.
- At the Initial Investment Initiation stage:
  - to review and approve for the Company to proceed with the investment initiation activities, if the Committee is satisfied that the investment is viable and for overseas ventures, is in line with the overall Expansion Strategy adopted by the Group.
  - the Committee is given the power to authorise the Company to enter into any agreements, understanding and/or contracts with potential partners initiation stage and approve such terms in relation to the said agreement, understanding and/or contracts which may include equity participation of the Company.
- Following the Detailed Appraisal/Evaluation :
  - to review and recommend to the Board for final decision, the investment proposals to review the terms of reference of the Committee and recommend the changes to the Board.
  - to review other investment matters as the Board deems appropriate and in the best interest of the Company.

Meetings

Meetings are held as and when necessary and/or required to review specific matters. During the financial year, 5 meetings were held in which one (1) of them was Special Investment Committee Meeting. Except for 2 meetings held, the members registered full attendance at all the 5 meetings held by the Committee in 2008.

Summary of Activities (2008)

- Discussed and monitored the Business Plan of Small Volume Parentherals (SVP) plant progress : updates of the plant operations, appointment of plant consultants.
- Deliberated on the proposed Expansion Plans/merger and acquisition activities to our target markets.
- Discussed on the disposal of non-performing/idle assets/land/properties ie for Safire Pharmaceuticals (M) Sdn Bhd and Pharmaniaga LifeScience Sdn Bhd.
- Proposed outsourcing activities by Pharmaniaga Manufacturing Berhad.
- Monitoring the progress of the following investments/ projects by Pharmaniaga:
  - Amcare Labs (Malaysia) Sdn Bhd
  - Herbal Initiatives
  - Wuxi Worldbest Treeful Pharma Pharmaceutical Co. Ltd.

Statement on Corporate Governance (cont'd)

ACCOUNTABILITY & AUDIT

Financial Reporting

The Group has a detailed budgeting system and a comprehensive system for reporting financial results to the Board. Each business unit maintains financial controls and prepares monthly results with a comparison against budget. There are clearly defined guidelines for the review and approval of capital expenditure projects. These include annual budgets, periodic reviews and designated levels of authority. The Group's centralised internal audit function reviews the systems and procedures in all business units and reports regularly to the Audit Committee who reports to the Board.

The Board is satisfied that it has met its obligations in presenting a balanced and clear assessment on the Group's position and prospects.

The Board is committed to provide a balanced, clear and meaningful assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely releases of announcements on quarterly financial statements and press releases accompanying these results announcements reflect the Board's commitment to provide timely, transparent and up-to-date disclosures of the performance of the Group.

The Board is assisted by the Audit Committee to oversee the financial reporting processes and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and changes to these policies.

The Statement on Directors' Responsibilities in respect of the preparation of the annual audited financial statements of the Group is set out on page 71.

Internal Control

The Board has overall responsibility for maintaining the Group's system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines.

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing significant risks across the Group.

The Risk Management Committee considers and reports to the Audit Committee the key risk indicators of each business unit and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the business units and reinforced by risk awareness training. The Audit Committee also receives reports from the internal audit function and, where appropriate, recommendations for improvements are also considered. The Board's agenda includes consideration of risk maps and controls, and it receives reports thereon from the Audit Committee. The emphasis is on obtaining the relevant degree of assurance.

The work undertaken by the internal audit function and the Audit Committee helps to enable the Board to make the statement relating to internal control in the Statement on Internal Control.

The Group's Statement on Internal Control pursuant to Rule 15.27(b) BMLR : Corporate Governance Disclosure - Additional statements by the board of directors is set out on page 74 to 83.

Related Party Transactions

All related party transactions are reviewed on a quarterly basis and a report on the reviews conducted is submitted to the Audit Committee for their monitoring on a quarterly basis.

Details of these transactions are set out under Notes to the Financial Statements on pages 186 to 188.

Relationship with External Auditors

An appropriate relationship is maintained with the Auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both the external and internal Auditors. The role of the Audit Committee in relation to the External Auditors is stated in pages 61 to 62 in the Audit Committee Report.

Non-Audit Fees

The amount of non-audit fees paid and payable to external audit firms by Pharmaniaga Berhad and its subsidiaries for the financial year ended 31 December 2008 are as follows:

External Auditor	Total Paid (RM)
PricewaterhouseCoopers	174,341
Ernst & Young Tax Consultants Sdn Bhd	68,885
KPMG	50,000
Total	**294,226**

Statement of Director's Responsibility

The Directors are required by the Act to prepare financial statements for each financial year which have been made out in accordance with the applicable and approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of each financial year and of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have:

- ensured that all applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965 have been followed
- applied suitable and appropriate accounting policies and applied them consistently
- made reasonable and prudent judgements and estimates
- prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that Pharmaniaga keeps accounting records, which disclose with reasonable accuracy the financial position of the Pharmaniaga Group, which enables them to ensure that financial statements comply with the requirements of the Act. The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

RELATIONSHIP & COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Shareholders & Investor Relations

The Board considers effective communication with shareholders and investors as extremely important.

Pharmaniaga embarks on an active Investor Relations (IR) programs aimed at fostering high quality dialogue as well as building credibility and trust with the broad investment community. The Managing Director and/or the IR personnel is primarily responsible for all IR activities.

Key IR activities carried out during the year include hosting teleconferences, responding to email/telephone enquiries, catering to numerous requests for private meetings with investors and analysts, and organising trips for investors to visit our warehouses, plant and factories. Through these channels too, Pharmaniaga has communicated to investors and shareholders the solid oneness of the Board and management, auguring well for the continuity of current and future business.

Statement on Corporate Governance (cont'd)

Pharmaniaga is committed to maintaining constructive relationships with shareholders in pursuing the highest standards of corporate governance practices throughout the Group, with full appreciation of the impact of sound governance on long-term corporate performance and optimal shareholders value.

Annual Report

In addition to quarterly financial reports, Pharmaniaga communicates with shareholders and investors through its annual report, with comprehensive and sufficient details about financial results and activities of the Group.

The Annual Report, including the Financial Statements sections of the Annual Report, is printed in English as well as in Bahasa Melayu to reach out to a wider audience of investors.

During the year shareholders can receive up-to-date information through the Company's website, www.pharmaniaga.com. This website shares business overview, investor resources, photo gallery, newsletter, online catalogue and answers to frequently asked questions. A dedicated e-mail address is also available at wmaster@pharmaniaga.com providing a contact point for shareholders on any issue of concern.

Briefing to Analysts

The Board of Directors acknowledged the importance of communication with shareholders/investors and conduct regular dialogues and briefings with financial analysts, brokers and institutional fund managers and investors on the Group's financial results, performance and business strategies. During the year, management has met and briefed several fund analysts on the development and progress of the Group.

Website

In addition to the annual report and media briefings, the Company's website provides an excellent medium of communication and source of information to shareholders and the general public. A comprehensive avenue for up-to-date information of the Group, www.pharmaniaga.com includes among others, the latest financial results, investor presentations and news releases.

AGM : A Vital Link

Our meeting this year will be held on Tuesday, 26 May 2009, 10.30 a.m. at Zamrud Ballroom, The Saujana Kuala Lumpur, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan. The counter for registration will open at 12.30 noon. The Board regards the meeting as an opportunity to communicate directly with shareholders. Wherever possible, all Directors will attend the meeting. As always, there will be opportunities for questions-and-answers during the meeting. Shareholders are invited to ask questions and are encouraged to attend the meeting, where they are able to meet the Directors. For investors who are unable to attend, Pharmaniaga offers proxy-voting.

Pharmaniaga's Annual General Meetings (AGM) take place every year and gives shareholders the opportunity to attend, hear about and question the Group's performance and the Directors' stewardship of their Company. The Chairman attends the meeting, along with other Directors, and the Managing Director conducts a brief presentation on the Group's financial performance and prospects. Pharmaniaga also ensures that shareholders receive the Annual Report before the AGM.

The AGM provides an open forum at which shareholders and investors are informed of current developments and where ample time is allowed for questions to be raised to Board members and the Chairman. Pharmaniaga supports the Code's principle to encourage shareholders participation. Its Articles of Association allow a member who is entitled to attend and vote, to appoint a proxy, to attend and vote instead of the member and also provide that a proxy needs not be a member of the Company. A press conference is held immediately after the AGM where the Chairman, senior management and representatives of external auditors are present to clarify and explain issues raised by the media.

Code of Practice

The Board is committed to ensuring that all its business activities operate with the highest standards of business ethics and integrity as summarised in the Company's written code on business practices/ethics, which are applicable Group-wide including Group facilities overseas.

Corporate Social Responsibility (CSR) Reporting

The Group's annual CSR Report is published on page 118 to 121.

OTHER INFORMATION

Apart from providing the shareholders with an overview of the state of corporate governance in the Company, the Company is also pleased to disclose the following information:

1 Sanctions

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year ended 31 December 2008.

2 Material Contracts

Save as disclosed below, there is no other contracts which may be material that have been entered into by the Company and its subsidiaries in the financial year under review:

a Memorandum of Understanding (MOU) dated 5 February 2008 entered into between Pharmaniaga Berhad and Visor Holding LLP for Collaboration and Participation in Healthcare Projects in the Republic of Kazakhstan. Pharmaniaga Berhad and Visor Holding LLP of the Republic of Kazakhstan have agreed to mutually terminate the MOU on 30 July 2008, as allowed under Clause 3 of the MOU.

Both parties have agreed to the termination as no mutual agreement could be reached between both parties on some key commercial terms of the collaboration.

b On 25 November 2008 Safire Pharmaceuticals (M) Sdn Bhd, a wholly-owned subsidiary of the Company entered into a Sale and Purchase Agreement for the sale of land and assets with Idaman Pharma Sdn Bhd for a total consideration of RM35 million. The transaction is expected to be completed by end of June 2009.

Statement on Internal Control

BOARD RESPONSIBILITY

The Board of Directors (Board) is responsible for Pharmaniaga Berhad's Group (the Group) system of internal control and its effectiveness. The system covers the areas of risk management, finance, operations, management information systems and compliance to the relevant laws, regulations, rules, directives and guidelines.

The internal control system is designed to manage the Group's risks within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the group. Accordingly, it can only provide reasonable but not absolute assurance against material mis-statement of management and financial information and records or against financial losses or fraud.

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 system of internal controls when there are changes to business environment or 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 Internal Control: Guidance for Directors of Public Listed Companies*.

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 and employees and the Group's assets. In enhancing the internal control system, the Investment Committee continues to evaluate, monitor and make recommendations to the Board in respect of any investments prior to its approval.

The Board ensures that management undertakes such actions as may be necessary in the implementation of the policies and procedures on risk and control approved by the Board whereby management identifies and assesses the risk faced and then designs, implements and monitors suitable internal controls to mitigate and control these risks.

Effective from 13 February 2007 the Board has adopted a formal Management Control Policy (MCP), which spells out in a single document the internal control responsibilities of the Audit Committee, the Internal Audit function and Operating Management. The MCP has since been disseminated to all members of the senior management team to ensure that they are at all times fully aware of their internal control responsibilities. The MCP complements the Terms of Reference of the Audit Committee, the Internal Audit Charter and this Statement on Internal Control.

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

MANAGEMENT CONTROL

Risk Management

The Pharmaniaga Group (Group) recognises that effective risk management is critical for sustained profitability and continued enhancement of shareholder value as the Group operates in a rapidly-changing business environment with diverse risks. Thus, the Risk Management Framework (RMF) is positioned as a strategic tool to enhance future Group performance and prospects, and to deliver maximum value to all Stakeholders.

The RMF shape and mould the Group's long term risk governance strategy with the objective of minimising risks and maximising opportunities. The business risks for the Group are affected by a number of factors, not all of which are within the Group's control. The main underlying principles of the Group's policies are:

- Informed risk management is a crucial element of the Group's business strategy
- Effective risk management provides greater assurance that the Group's vision and strategy will be achieved without surprises
- Each business unit or division is expressly responsible for managing the risks associated with the business and investment objectives
- All material risks are to be identified, analysed, treated, monitored and reported

The Board views risk management as the logical step in the pursuit of its corporate governance agenda and the realisation of its long term corporate objectives towards protecting shareholders' investment and safeguarding Group's assets.

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

As provided for in the Group's risk management framework, the Risk Management Committee (RMC) and Risk Management Work Group Committee (RMWGC) meets up at least twice a year to review and update the risk registers, review the impact and likelihood of all risks identified, and to follow up and monitor status of action plans put in place to address these risks. Risk assessment reports as well as the minutes of RMC meetings including overseas subsidiary are presented to the Board as a whole at Board meetings.

Internal auditors are present at all RMC meetings to provide an independent assessment of the adequacy and reliability of the risk management processes and compliance with risk policies.

In line with the Group's focus to expand its business activities overseas, the RMC had undertaken a more detailed approach towards assessing risks relating to doing business locally and overseas. The Investment Committee (Committee) was set up in 2006 as recommended by the RMC. The responsibility of the Committee is to assist the Board in fulfilling its obligations by evaluating, monitoring and making recommendations to the Board in respect of any investments prior to its approval.

Policies, Procedures and Discretionary Authority Limits

An organisation structure with clearly defined lines of responsibility, limits of authority and accountability is aligned to business and operations requirements in order to support the maintenance of a strong control environment. Delegation of authority including authorization limits at various levels of management and matters requiring the Board's approval are clearly defined under the Discretionary Authority Limits (DAL) to ensure accountability and proper segregation of duties. The DAL is reviewed regularly to ensure that it continues to be relevant and effective. The Board approves all changes to the DAL above the Managing Director's limit.

Policies and procedures for all key processes are clearly documented and reviewed at regular intervals. Certain subsidiary companies are certified under the various standards such as ISO 9001, ISO 14001, ISO/IEC 17025 and OHSAS 18001. The business operations of the Group are also governed by various regulations and laws applicable to the pharmaceutical and healthcare industry. Compliance to stated policies, procedures and regulations is regularly audited by various independent

Statement on Internal Control (cont'd)

bodies for the various certifications and licenses obtained by group companies, such as SIRIM, the National Pharmaceutical Control Bureau and certain multinational companies. The Board, either directly or through the Audit Committee, has been regularly briefed of any major findings arising from these independent audits.

Performance Management

A structured Performance Management System (PMS) which is linked to and guided by established Key Performance Indicators (KPIs) and Key Result Areas (KRAs) has been implemented. The PMS is driven by the Group's five-point focus value creation to support business unit and corporate strategies (PEPSI);

- Productivity of resources
- Expansion and growth of business
- People and organisational development
- Systems and processes improvements
- Image and perception management

PEPSI 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. This system has been implemented on employees at all levels.

Emphasis is placed on talent and competencies of employees through a recruitment strategy and continuous training and development. Training and development needs of employees are identified to ensure employees are adequately trained and competent in discharging their duties effectively. Recruitment and promotion guidelines within the Group are established to ensure appropriate people of calibre are selected to fill positions available. Succession plan is also reviewed annually to ensure continuity at all critical positions. Through the PMS, employees' competencies are being properly addressed and suitable training programmes or schemes identified to expand on the competencies.

Standard of Ethical Code of Conduct

Staff handbook containing the human resource policies and code of conduct is made available to all employees either in bound copies or on the intranet. All employees are required to renew their declaration of non-conflict of interest every year. Induction programmes are conducted for all new employees to ensure that they are immediately aware of the accepted code of ethical conduct and employee's obligations and responsibilities under the Safety and Health 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. During the year, two strategic planning sessions were conducted. Strategic concerns were deliberated. Strategies and action plans were then reviewed and mandates were given to management by the Board to carry out the agreed strategies and action plans.

Business plans, budgets and KPIs are aligned to the Group's Five-Year Strategic Plan, which guides the Group in achieving its vision of becoming the preferred Pharmaceutical brand in the regional healthcare in the markets. Monitoring of actual achievements of financial and non-financial indicators against the approved budget and explanations are provided for significant variances at monthly operations meetings and quarterly Board meetings. Effective utilisation of the budget is attained through regular monitoring by management.

Based on strategies identified in the Strategic Plan, Five-Year Business Plans 2009-2013 and Annual Operation Plans together with Key Performance indicators (KPIs) are drawn up and approved by the Board on 24 November 2008. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also revised based on the changes in business and operating environments. Inputs from the Board Strategic Planning Sessions are used to develop the Five -Year and Annual Operating Plans.

Regular Monthly Reporting

Operational review meetings are conducted on monthly basis to review and monitor matters pertaining to the business operations. The review based on performance reports which provide comprehensive information on financial performance and other key non financial indicators.

Tender Award System

A Tender Committee (Committee) has been set up to enhance coordination and control on procurement of goods and services for projects. The Committee serve to increase efficiency and places assurance on the effectiveness of the system of internal control embedded in the process of awarding tenders.

Insurance

Adequate insurance of major assets; buildings and machineries in major operating subsidiary companies is in place to ensure the Group's assets are sufficiently covered against any calamity that will result in material losses to the Group and/or its subsidiary companies.

GROUP INTERNAL AUDIT

The Group Internal Auditors from UEM Group Management Sdn Bhd (UEMGM) continues to provide the internal audit support function to the Audit Committee and the Board during the year. The internal audit activities undertaken by UEMGM are in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. Assurance on this was obtained through a Quality Assurance Review (QAR) on the internal audit function, conducted by a third party consultant in 2006.

The Internal Auditor has the responsibility for ascertaining that the ongoing processes for controlling operations throughout the organisation are adequately designed and are functioning in an effective manner, taking into accounts the Group's objectives and policies in the context of evolving business and regulatory environment as well as input from the management and the Board. Independent reviews on the annual internal audit plan are conducted to identify and report risks in units under the Group's major core activities.

AUDIT COMMITTEE

The Audit Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of the Management, the Internal Audit function and the 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 Audit function, the external auditors and other outside advisors have been satisfactorily resolved by the Management.

In relation to Internal Audit, the Audit Committee is responsible to review and thereafter report the same to the board the adequacy of the scope, strategic and annual internal audit work plans, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.

The Audit Committee is also empowered to be able to convene meetings with external auditors, internal auditors or both, excluding the attendance of other directors, executive members of the Committee and employees of the company, whenever deemed necessary.

Finally, the Audit Committee is responsible for assisting and reporting to the Board matters deemed critical to the organisation's controlling processes and risk management activities including the implementation of the appropriate systems to manage risks.

MONITORING AND REVIEW OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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

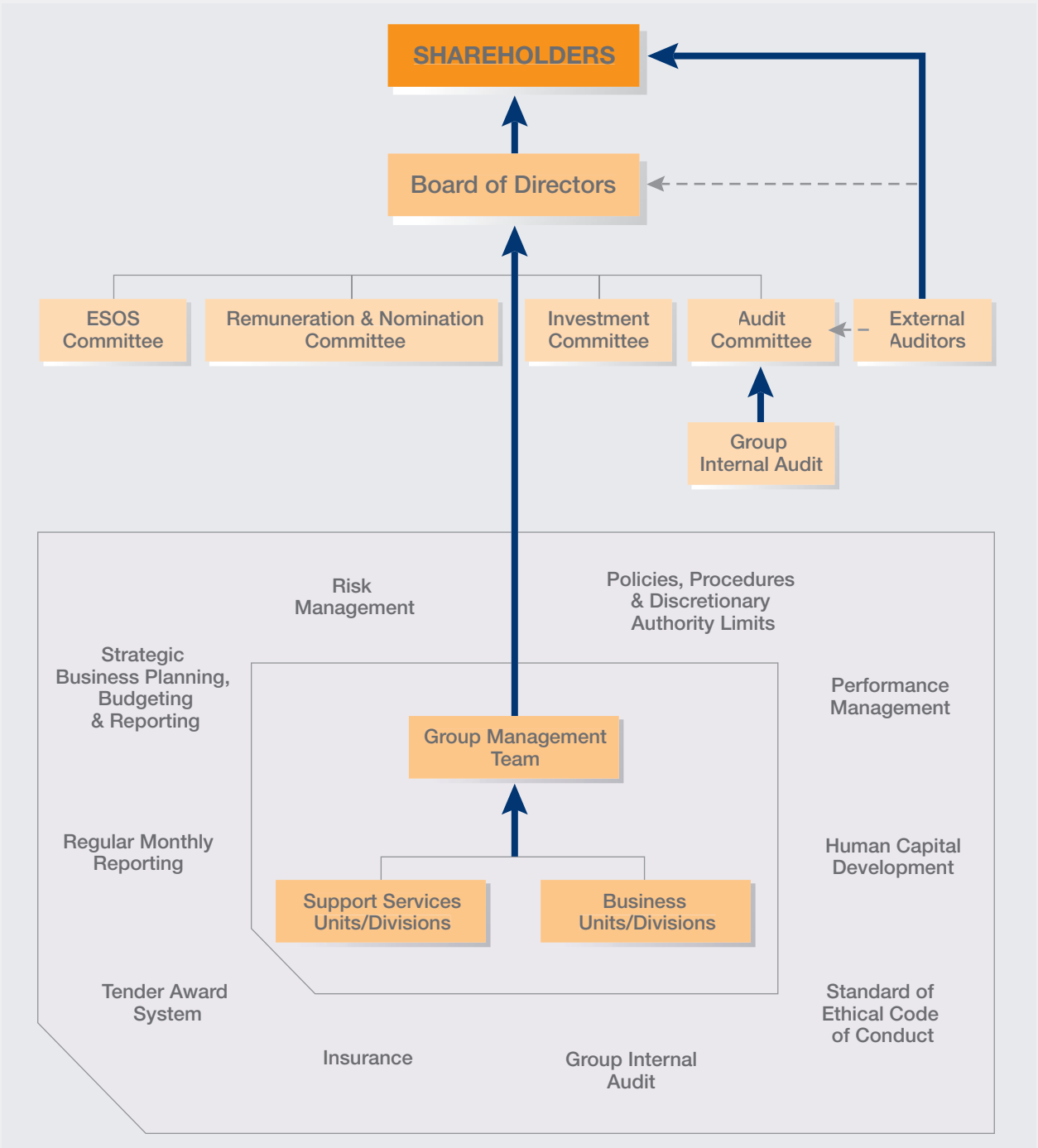
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Company for the year ended 31 December 2008 and reported to the Board that the Statement appropriately reflects the process undertaken by the Company and the Group in ensuring the adequacy and integrity of the system of internal controls.

This statement is made in accordance with the resolution of The Board of Directors dated 26 March 2009.

Statement on Internal Control (cont'd)

INTERNAL CONTROL FRAMEWORK OF PHARMANIAGA BERHAD GROUP



REPORT ON CORPORATE RISK MANAGEMENT

MEMBERSHIP

The Risk Management Committee (RMC) members which were appointed by the Board of Directors comprises Senior Independent Non-Executive Director, Managing Director and Senior Management Team from all functions of Pharmaniaga Group:

- Datuk Sulaiman bin Daud (Chairman/Senior Independent Non-Executive Director)
- Dato' Wira Prof. Ir. Dr. Mohamad Noor bin Hj. Salleh (Independent Non-Executive Director)
- Mohamad bin Abdullah (Deputy Chairman/Managing Director)
- Stephen Sze Kwong Yew (Chief Operating Officer)
- Abd Rahman bin Abdullah Thani (President Director of MPI)
- Ramlan bin Abdul Rahman (Senior General Manager, Group Corporate Services)
- Errman Zuhady bin Zainal (General Manager, Organisational Development)

The RMC reports directly to the Board of Directors.

MEETINGS

The RMC had two meetings during the financial year ended 31 December 2008. Representative from Group Internal Audit from UEM Group Management Services Sdn Bhd also attended the meetings upon invitation.

For Pharmaniaga Group, the practice of risk management is not designed to stop employees from taking risks but rather to create value by enhancing the chances of achieving corporate success and enabling managers and shareholders to understand the level of risks undertaken and to manage the risk profile accordingly. Risk management is firmly embedded in the Group's management system and is every employee's responsibilities.

RISK MANAGEMENT FRAMEWORK

Compliance and Performance Objectives

The Group risk management philosophy is to balance risk awareness and control with the need to create and exploit opportunities. The Group practices a holistic risk management since it offers a consolidated view of all types of risks and opportunities across the Group, management processes and business activities.

For the period under review, the Group has in place an ongoing process for identifying, evaluating, monitoring and managing significant risks affecting the achievement of its business objectives.

The Group Risk Management Framework has the following key attributes:

- **Risk Governance and Strategy**

  The risk governance and strategy are established within the Corporate Risk Management with three levels of structures:

  (i) Day-to-day risk management residing at the business units and divisions

  (ii) Group Risk Management Working Group Committee (RMWGC) taskforce headed by the Managing Director, Heads of Business Unit and Division is entrusted to drive the Risk Management of the Group. The RMWGC responsibilities are to:

  - Conduct quarterly review of the business risks
  - Coordinate the development of risk mitigation action plans
  - Update Business Continuity Plan for key business risks
  - Ensure good corporate governance

  (iii) The RMC retains the overall risk governance responsibility and risk oversight for the Group and its subsidiaries

  (iv) The secretariat for the Group Risk Management is Corporate Strategy and Business Development Department

Statement on Internal Control (cont'd)

- **Risk Management Portfolio**

  Based on its nature and characteristics, identified risks are broadly categorized into major risk types such as strategic, operational, financial, legal and regulatory, human capital, reputation and environmental. Risks are further classified into 5 categories, measured and prioritized using a 5 X 5 risk matrix methodology.

Likelihood					
Common	Common	Moderate	Significant	High	High
Likely	Low	Medium Low	Moderate	Significant	High
Possible	Low	Medium Low	Moderate	Significant	High
Unlikely	Low	Medium Low	Moderate	Significant	High
Remote	Low	Low	Medium Low	Moderate	Significant
	Insignificant	Minor	Moderate	Major	Catastrophic
			Impact		

- **Performance Monitoring**

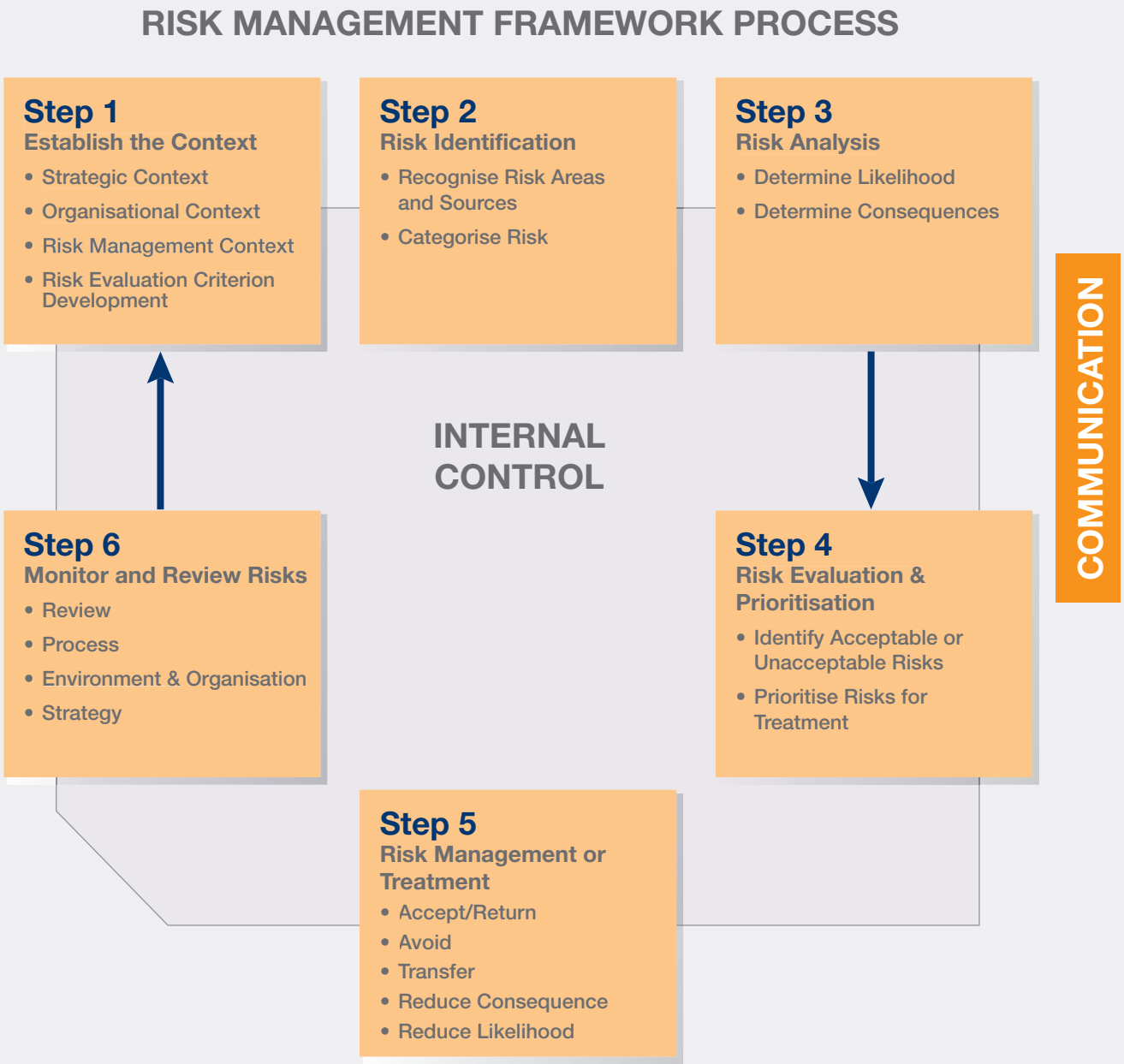
  The Group is currently piloting risk software, Risk Information Management System (RIMS) developed by KPMG Consultant Sdn Bhd and assisted by the Group Internal Audit to further facilitate the on-going review and monitoring the business risks. The RIMS automates the process of identifying risks, the plotting of risk registers, assigning of responsibilities for implementation of mitigation plans, as well as facilitates the preparation of risks reports to the RMC and the Board. This will be use to track and monitor performances of each operating unit in future.

- **Risk Control Assurance**

  This is driven by the Group Internal Auditors from UEM Group Management Services Sdn Bhd. The internal auditor was present at all RMC meetings to provide an independent assessment of the adequacy and reliability of the risk management processes and compliance with risk policies.

RISK MANAGEMENT PROCESS

The Risk Management process of the Group comprises six steps, namely:



Statement on Internal Control (cont'd)

In the risk identification process, all possible business risks are identified. The identified business risks are then evaluated based on:

- **Likelihood of the Risk Crystallizing**

Likelihood	Description
Common	This risk is expected to occur in most circumstances
Likely	This risk will probably occur in most circumstances
Possible	This risk should occur at some time
Unlikely	This risk could occur at some time
Remote	This risk may only occur in exceptional circumstances

- **Severity or Impact of the Consequence**

Impact	Description
Catastrophic	Loss of ability to sustain ongoing operations. A situation that would cause a standalone business to cease operations.
Major	Significant impact on the achievement of strategic objectives and targets relating to corporate plan.
Moderate	Disruption of normal operations with a limited effect on the achievement of strategic objectives or targets relating to corporate plan.
Minor	No material impact on the achievement of business objectives or strategy.
Insignificant	Negligible impact.

- **Degree of internal control and risk management measures in place**

  The outcome of the risk identification and evaluation process is a risk register which documents all identified business risks, their risks levels as well as action plans to manage these business risks.

  The key elements of the process are:

  - An appropriate organisational structure for planning, executing, controlling and monitoring business operations with appropriate authorisation limits in order to achieve business objectives
  - Review of the Group's risk registers and reports on significant problems that have occurred during the year
  - Review of the external and internal audit work plans
  - Review of long-term financial objectives and the evaluation of business strategy
  - Regular variance reporting by business unit on progress against business objectives

REVIEW OF THE GROUP'S RISK MANAGEMENT PROFILE

Risk review is conducted to review the effectiveness of individual components of the Group Risk Management and implement improvements where necessary. These are complemented by internal control practices such as the statement of compliance with the Malaysian Code on Corporate Governance.

In June, July and December 2008, the RMWGC and management jointly updated the risk register and risk management action plans.

The Risk Management Committee has met twice during January 2008 and August 2008 to review Group's risk profile and progress of the action plans for 2008. The Board of Directors was briefed by the Head of Strategic Planning Unit in May and August 2008.

Summary of risks review for the year:

Total risks identified	65
New risks identified	0
Changes to the net risks rating	1
Significant risk	19

Group Risk Profile

Consistent with good corporate governance below are the macro components of the Group risk profile:

Logistics Business Risks

Pharmaniaga Logistics Sdn Bhd, one of the Group's subsidiaries, manages the 15-year concession of supplying drugs and medical disposables to government hospitals in Malaysia which will end in 2009. Ongoing risk monitoring is conducted to actively review the risk of loss in concession business and the effectiveness of risk mitigation measures.

Manufacturing and Marketing Business Risks

In this sector, the Group is exposed to the economic conditions of the Malaysian economy, impact of competition from other pharmaceutical competitors, customer market demand, shortage of raw materials and changes in regulatory environment. The Group has expanded its market penetration strategy including overseas markets where Vietnam and Indonesia has been identified as priority markets.

Other Risks

Other key risks inherent in the Group's business operating environments include non-compliance to legal and regulatory requirements, risks associated to environmental and social responsibilities and retention of key personnel. The Group assessed the risk of an adverse effect on its business operations arising from the above risks as highly unlikely and possible at the moment.



Ramlan Abdul Rahman
Senior General Manager,
Group Corporate Services

We keep track of goals to keep up our pace!

At Pharmaniaga we constantly take action, review and evolve updated strategies to account for changes in the market and unforeseen circumstances. Our established system of checks and balances which penetrates down to each individual staff ensures that we are always on top of the latest management decisions and that our companies share a united vision and maintain consistent standards.


ALWAYS!!!
KEEP TRACK OF GOALS
WORK AS A TEAM = 1 VISION
STAFF LEVEL: FOCUS ON KPIs
SYNERGY THROUGH COMMUNICATION
MAKE WORK PROCESSES MORE EFFICIENT

Group Corporate Services



Norhana Othman
Deputy Senior Manager,
Legal & Secretarial

Chen Yoke Ming
Deputy General Manager,
Group Finance

Andrew Loke
Deputy General Manager,
Corporate Strategy & Business Development

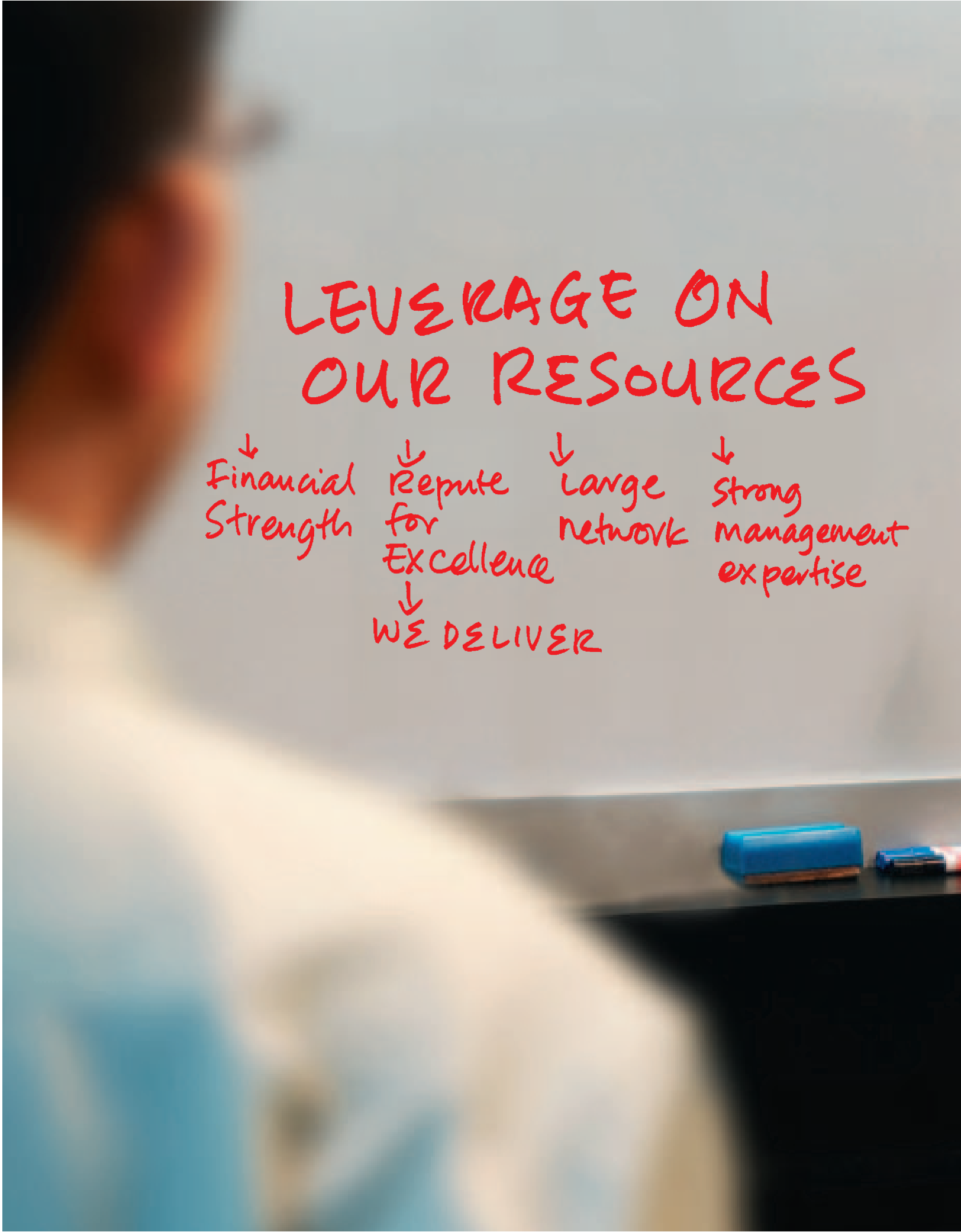


Mohamad Fazlin Mohamad
Senior Manager,
Middle East Operations

Azlynawaty Hanapy
Senior Manager,
IT Support

Zarina Noordin
Senior Manager,
Regulatory/Manufacturing Projects

Fahrul Ariffin Wan Mansor
Senior Manager,
Corporate Communications


LEVERAGE ON
OUR RESOURCES
Financial Strength
Repute for Excellence
Large network
strong management expertise
WE DELIVER



Jamaludin Elis
Senior General Manager,
Manufacturing

We are on solid platform to go further!

The repute and expertise we have achieved throughout the years ensure that we are on solid platform to go further. We leverage on established strengths such as our financial strength, existing large network, presence in Asia and our proven strong management expertise to prepare the best strategies to weather the oncoming challenges.

GENERIC PHARMACEUTICALS



Ishak Sulaiman
Senior Manager,
Finance & Administration
(Manufacturing)

Mohamed Azudin Ibrahim
Senior Manager,
Supply Chain Management
(Manufacturing)

Mohd Danil Daud
Senior Manager,
Plant Operations
(Manufacturing)

Amran bin Tomin
Deputy Senior Manager,
Human Resource
(Manufacturing)



Abdul Rahman Said
Manager,
Quality Control
(Manufacturing)

Ahmad Syazali Abdul Khalil
Deputy Senior Manager,
Business Development
(Manufacturing)

Ramlan Ibrahim
Senior Manager,
Sales & Marketing
(Manufacturing)

Ahmad Zaidi Abdul Wahab
Manager,
Quality Assurance
(Manufacturing)

Generic Pharmaceuticals (cont'd)



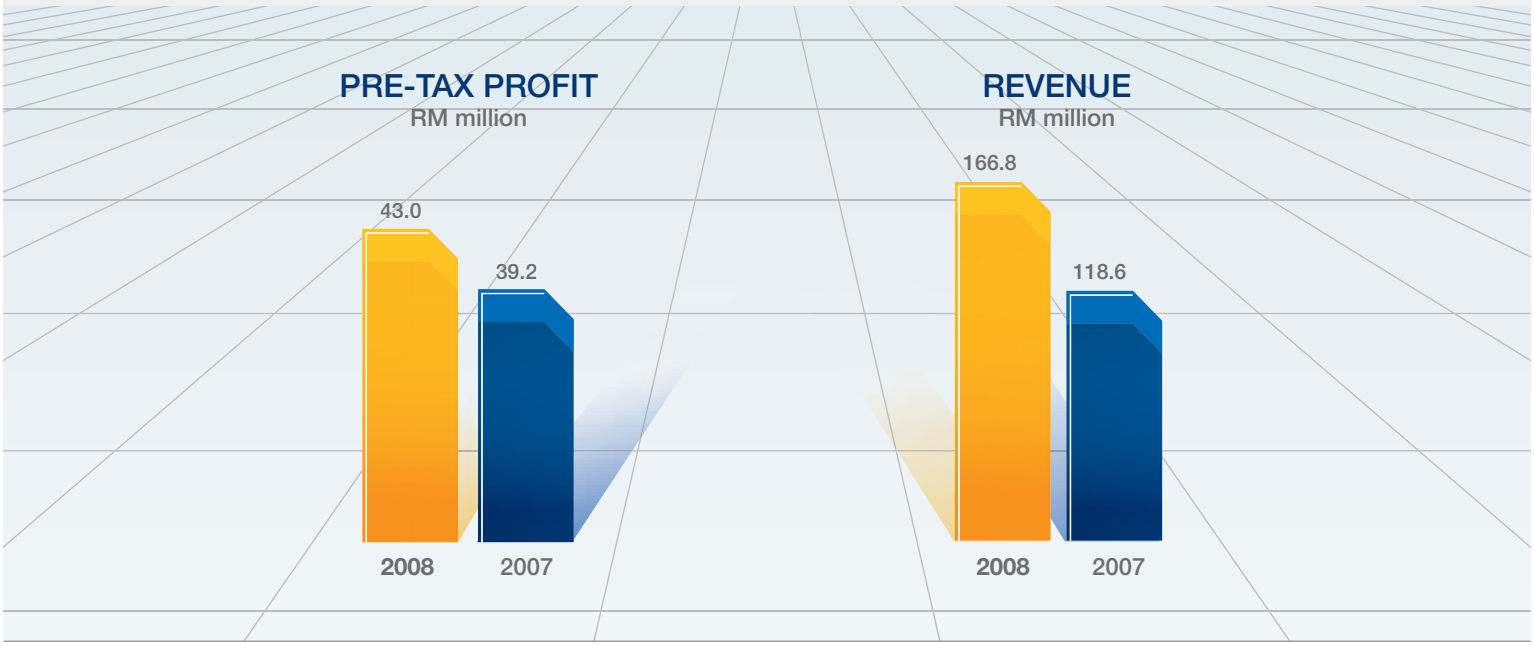
Hayat Al-Mazli
Manager,
Human Resources and Administration
(LifeScience)

Donald Fraser Grubb
Senior General Manager,
(LifeScience)

Manufacturing



Pharmaniaga Manufacturing Bhd (PMB) chalked up yet another successful year by registering double digit growth in revenue for 2008 as its number of batches grew by 7% to 3,338 batches from 3,126 batches in 2007. This is the third consecutive year that it posted more than 20% growth in revenue. For the year under review, the company also saw growth in both its gross margin and profit before taxation. Profit margin increased from 37.9% to 43.3% while Profit Before Tax increased by 10% to RM43.0 million, from RM39.2 million in 2007. The revenue grew by 40.6% to RM166.8 million from RM118.6 million in 2007.



Generic Pharmaceuticals (cont'd)

During the year under review, PMB achieved significant operational savings from its Continual Improvement Projects (CIPs) which included Lean Six Sigma and Small Group Activities programmes. Since the implementation of the Lean Six Sigma initiative in 2006, we have achieved savings of 15% in our operational expenses. To reinforce our commitment to CIPs, all supervisors and executives included at least two projects in their individual Key Performance Indicators (KPIs). A total of 70 CIPs were registered, out of which 71% had been completed with goals met, and the rest are still under implementation. Currently, we have 1 black belt, 9 green belts and 6 new candidates undergoing the training. We managed to complete 8 projects in 2007 and 9 projects in 2008.

"Project 55" which was launched in 2007 with the objective of propelling our gross profit margin to 55% saw further progress as the Division forged ahead, achieving an improved overall margin on products sold. The management is pleased to report that with continuing trends, we are on track to achieving the objective of this project.

The Division has also embarked on a rigorous exercise to efficiently manage product variability and reduce the number of line changes to minimise on our unproductive time.

Thus in 2008, the division has decided to streamline our products from a total of one hundred fifty eight (158), to sixty one (61) products retained as an in-house manufactured products. These are mainly high volume, campaign run routine products.

The other aspect in streamlining our products is to anticipate the production of newer products (newly formulated off-patent drugs) that will be manufactured at the plant for the next three (3) years.

With the introduction of new products, it is estimated that the plant will eventually produce a total of 100 main products.

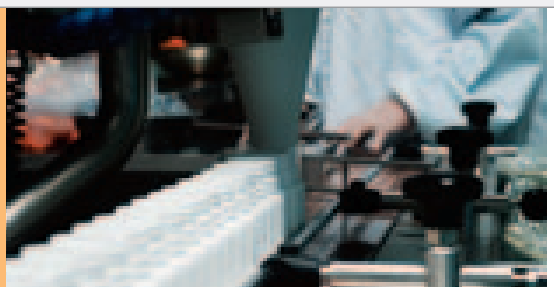
The impact of rising global fuel cost and the Olympic event in China have also significantly affected the manufacturing costs. Prices of diesel and gas rose significantly and had an impact of about 5% towards our cost structure.

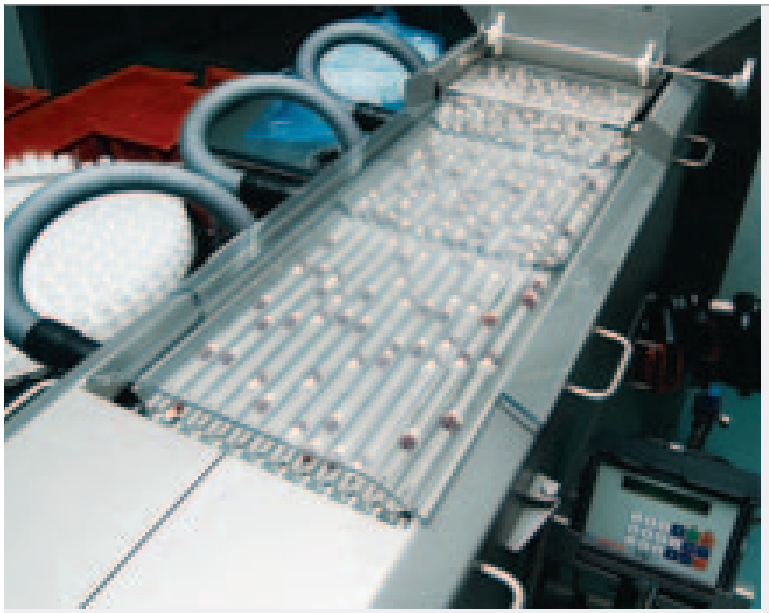
Various factors that contribute to the rise in raw material cost, include the increase in energy costs, the scarcity of lactose, the closing of major Active Pharmaceutical Ingredient (API) plants in China and the increasing demand for common petroleum based material.

The material cost cutting exercise in 2008 was impacted by all the events as mentioned earlier, and in order to mitigate the impact from spilling over in 2009, few strategies had been mooted such as having continental supply-base where sourcing of materials could be spread across the continent, the introduction of supplier scorecard and performance measurement, price hedging and reducing the dependency on purchase through traders and distributors. In addition to that, the number of suppliers for each material will be increased to a minimum of 3 to access a better negotiation term, price and delivery flexibility. Once this initiative has been achieved, the next step is to have RFQ (Request for Quotes) with a quoted and approved Base Price for major purchases of raw materials. By creating competition among the related suppliers, potential cost effectiveness can be realised.

PMB has also undergone a product rationalisation process. This will strategically position us to channel our resources and energies towards achieving higher volume and focus on high margin products, hence bringing profitability to a greater level.







In April 2008, PMB held its Quality and Environmental, Safety and Health (ESH) emphasis week. All employees participated in various activities, talks, forums and discussions addressing these important issues which affect the way we work and live, and to devise ways to bring improvement and enhance our processes in these areas.

During the year under review, PMB continued its heritage of winning industry awards. We garnered two prestigious awards, namely the Prime Minister's Quality Management Excellence Award (QMEA) and the Gold Medal in the Malaysia Manufacturing Excellence Award presented by Frost & Sullivan.

We also successfully completed the annual SIRIM audit, thus maintaining our Quality Management System certifications for ISO 9001, ISO 14001 and IEC 17025.

SVI PLANT TO COMMENCE PRODUCTION

Pharmaniaga LifeScience Sdn Bhd is progressing smoothly in the final stage of equipping the Group's new Small Volume Injectables (SVI) plant in Puchong. The equipment had passed the Factory Acceptance test (FAT) and had been installed with the major machines and equipment. In Q3 of 2008, the plant successfully completed an engineering trial run to ascertain our readiness in terms of personnel, utility systems, production equipment and our quality control laboratory.

The most important utility items in the plant, the Purified Water System and Water for Injection System have passed the Installation Qualification and Operational Qualification (IQ/OQ) tests and are now at the final stage of Performance Qualification (PQ). In December 2008, two SVI specialists from abroad joined the term and assisted by consultants from Synertech providing expertise to expedite the certification process. We expect to obtain the cGMP certification in mid 2009 and to commence production in the last quarter of the year.

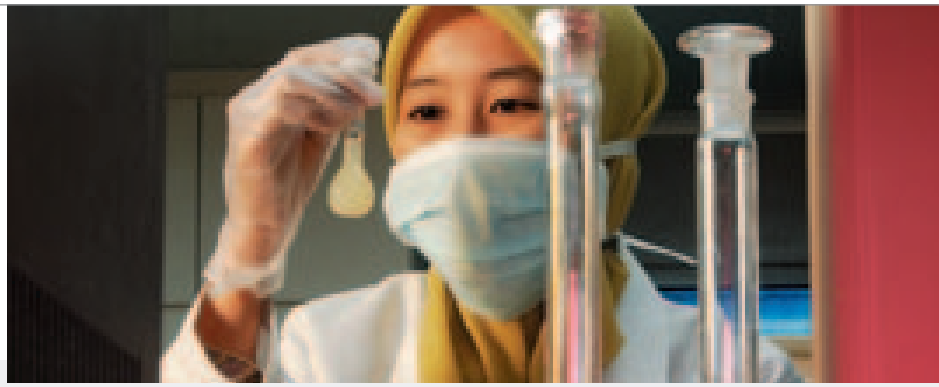
MOVING FORWARD

As outsourcing our non-core activities have proved to be beneficial to our profit margin by cutting overheads and reducing costs, we will continue with this course of action. There are also plans to further streamline our operations for better resource utilisation, to enhance efficiency and achieve optimum productivity, whilst maintaining the quality that is winning us awards and accolades. The opening of our new SVI plant will no doubt be a major milestone for us. This will increase our capability and enable us to venture into new markets both regionally and globally.



Generic Pharmaceuticals (cont'd)

Research and Development



Pharmaniaga Research Center (PRC) is a state-of-the-art R&D centre focusing on new product development, with comprehensive programmes to support the Group's business goals and objectives. By employing the product development methodology of Stage-Gate, new product design and development plans are aligned and integrated with marketing initiatives and strategies to ensure that there is total synergy in our endeavours.

The PRC R&D laboratory is certified with IEC 17025 accreditation. As part of the site operations of Pharmaniaga Manufacturing Berhad, PRC also participated in the SIRIM audit and successfully attained accreditation for ISO 9001, ISO 14001 and OHSAS 18001 for quality, environment and occupational health and safety.

PRODUCT DEVELOPMENT DIVISION

The process of developing a new project demands a robust scientific approach towards every component of the methodology involved. The scientific findings and insights ensure that the new product is delivered in a reproducible manner over a wide range of material attributes, processing options and process parameters, with precise product specifications and proper manufacturing controls. Critical to this understanding are the formulation process and analytical methods and thus at PRC our product development departments consists of these two divisions.

FORMULATION

Our formulation division has been developing generic products for more than 10 years, applying state-of-the-art technology. Our products encompass most of the drug classification categories, such as anti-diabetic and cardiovascular drugs, anti-infectives and analgesics, as well as products in various dosage forms such as tablets, capsules, oral liquid, cream, ointment, injectables and others.



ANALYTICAL

This important division has been actively involved in new analytical methods development and validation. It also conducts raw material testing, finished product testing, dissolutions and stability studies. Currently, 6 new formulations are undergoing analytical development that includes method validation, and we expect this to be completed in 2009 for process validation and new product registration.

PRE-CLINICAL AND CLINICAL DIVISION

The Pre-clinical and Clinical Division focuses on four principal areas and these involve Bio-equivalence (BE) Studies, Pharmacovigilance, Product Efficacy Complaints as well as Herbal and Biotechnology projects.

- **Bio-equivalence Studies**

  PRC places great emphasis on the quality, safety and efficacy of products developed, to safeguard the public. With increasing availability of generic products in the Malaysian market, it is imperative to ensure that they are equivalent to the innovator's product and clinically interchangeable. This division is committed to conducting BE studies on products developed by Pharmaniaga to ensure that customers receive the same benefits.

  In 2008, 4 Pharmaniaga products passed BE studies, bringing the total to 34, with more products scheduled for BE studies in 2009. The division is also involved in the monitoring of the clinical phase of BE studies to ensure that trials are conducted in accordance with Good Clinical Practice (GCP) guidelines.

- **Pharmacovigilance**

  Our division also investigates Adverse Drug Reaction (ADR) complaints related to Pharmaniaga products and provides reports to the Malaysia Adverse Drug Reaction Advisory Committee (MADRAC). This is a co-operative effort to protect the well-being of the public. There were 2 cases of ADR product complaints recorded and resolved in 2008.

- **Product Efficacy Complaints**

  These complaints are being investigated with the assistance of the Quality Control, Quality Assurance and Production teams from manufacturing divisions. Investigations will be made on the safety, efficacy and quality aspects of the product in question and appropriate recommendations will be made based on the final investigation findings. There were 5 cases of product efficacy complaints recorded and resolved in 2008.

- **Herbal and Biotechnology Projects**

  As the government continues to focus on Biotechnology, this division remains dedicated to developing programmes in this discipline. We are currently collaborating with the Government to develop popular traditional Malay herb as phytomedicine and make them commercially viable. We will continue to develop and strengthen our capabilities and participation in these fields. We are evaluating other upcoming herbal and biotechnology projects.



Generic Pharmaceuticals (cont'd)

Products Registered for year 2008

Country	Product Names	Active Ingredients	Registration Number
Vietnam	1. Pharmabay Tablet 250 mg	Ciprofloxacin Hcl	Vn-6248-08
	2. Pharmabay Tablet 500 mg	Ciprofloxacin Hcl	Vn-6247-08
	3. Euvaderm Cream 0.05% w/w	Clobetasone Butyrate	Vn-6246-08
	4. Dermasole N Cream	Betamethasone 17-valerate 0.1% w/w, Neomycin 0.5% w/w	Vn-6764-08
	5. Uniderm Cream 2% w/w	Miconazole Nitrate	Vn-6765-08
Hong Kong	1. Citrex Vitamin C Tablet 250 mg	Vitamin C	Hk-56090
	2. Pharmaniaga Euvaderm Cream 0.05% w/w	Clobetasone Butyrate	Hk-56220
	3. Pharmaniaga Aciclovir Tablet 400 mg	Aciclovir	Hk-56736
	4. Citrex Vitamin E Chewable Tablet 400 mg	Vitamin E	Hk-56806
	5. Pharmaniaga Cetirizine Tablet 10 mg	Cetirizine Hcl	Hk-56850
	6. Pharmaniaga Cetirizine Oral Solution 0.1% w/v	Cetirizine Hcl	Hk-57059
Sri Lanka	1. Pharmaniaga Dermasole Cream 0.1% w/w	Betamethasone 17 - Valerate	Pr-032535
	2. Pharmaniaga Ziconal Shampoo 2% w/w	Ketoconazole	Pr-032536



Country	Product Names	Active Ingredients	Registration Number
Brunei	Pharmaniaga Aciclovir Tablet 200 mg	Aciclovir	Bru L 08010001p
	Pharmaniaga Aciclovir Tablet 400 mg	Aciclovir	Bru L 08050053p
	Pharmaniaga Ketoconazole Tablet 200 mg	Ketoconazole	Bru L 08010002p
	Pharmaniaga Clarithromycin Tablet 250 mg	Clarithromycin 250 mg	Bru L 08010003p
	Pharmaniaga Fluconazole Capsule 150 mg	Fluconazole 150 mg	Bru L 08010004p
	Pharmaniaga Cephalexin Capsule 250 mg	Cephalexin 250 mg	Bru L 08050054p
	Pharmaniaga Ciprofloxacin Tablet 250 mg	Ciprofloxacin Hcl	Bru L 08010006p
	Pharmaniaga Ciprofloxacin Tablet 500 mg	Ciprofloxacin Hcl	Bru L 08010005p
	Pharmaniaga Cephalexin Capsule 500 mg	Cephalexin 500 mg	Bru L 08020012p
	Pharmaniaga Metronidazole Tablet 200 mg	Metronidazole 200 mg	Bru L 08020013p
Myanmar	Adult Citrex Cv Multivitamin + Zinc	Vitamin C 750 mg, Vitamin E 30 IU, Vitamin B1 15 mg Vitamin B2 15 mg, Vitamin B6 20 mg Vitamin B12 12 mcg, Folic Acid 400 mcg, Niacin 100 mg Pantothenic Acid 20 Mg, Zinc 15 Mg	Drn(Myanmar)13 03aa1023
	Pharmaniaga Antibex Cream 1% w/w	Chlorhexidine Gluconate 1% w/v	Drn(Myanmar)13 03aa443

MOVING FORWARD

PRC will continue to serve the Group with uncompromising quality in our effort towards ensuring that Pharmaniaga products are the preferred choice of customers. We constantly raise the bar to remain relevant and on the cutting edge in terms of formulation and analysis to enhance product development and improvement, especially in the areas of safety, quality and efficacy. Our focus remains firmly on ensuring that we bring the best possible pharmaceutical solutions to the people wherever Pharmaniaga products are sold.

Generic Pharmaceuticals (cont'd)

Marketing



- Top local generic pharmaceutical company for Q2 2008 (IMS Q2 Report 2008)
- Physicians' Choice for Excellence in Healthcare Awards by Frost & Sullivan
- Five products with more than RM1 million sales for Q3 2008 (IMS MAT Q3 2008)

The pharmaceutical industry grew by 10.9% in 2008, with the generic pharmaceuticals market registering an increase of 14.9% (IMS Malaysia 2008). Against these increases, the Marketing Division registered a sales revenue growth of 28.1% over 2007.

ORGANIC GROWTH IN EVERY TEAM

The consolidation of all sectors under one roof had proved to be the right formula in synergising our people, products and processes. Our presence is felt more strongly in the market and we closed the year with record growth, to which the Private Practitioner team contributed 77.6%, the Hospital team made up 18.2% and the Medical Equipment and Devices team managed 4.2%.

The anchor of our business, the Private Practitioner team, grew by 30.3%. The key success factor was an extensive and knowledgeable sales force aggressively increasing awareness of the Pharmaniaga brand in the generic industry, both among current customers and in potential growth areas. The Pharmaniaga brand has gained a reputation that is on par with internationally renowned names.

The Hospital team also experienced growth, closing at an increase of 59.6% over 2007. Perseverance and consistency in sustaining brand recall of Pharmaniaga amongst physicians and customers are the chief factors for the growth.

The international team was streamlined at the beginning of 2008 and this proved effective as it resulted in a sales revenue of RM8.4 million, registering a growth of 9.8% against 2007.



CONTINUED GROWTH IN EVERY PRODUCT SEGMENT

During the year under review, each therapeutic group - Acute, Chronic and Anti-infectives continued with its positive growth momentum to register healthy increments in sales of 45%, 46% and 17% respectively over 2007.

The Acute therapeutic group closed the year at RM15.2 million in sales. This was mainly driven by the sales results for Codesic which contributed 34% of the total, followed by Neuro Muscular System (NMS) therapeutic class at 18.2% and Dermatologicals (DMG) therapeutic class at 17.5%. NMS encompasses pain management medications, led by the key products Paracetamol, Mefenamic, Dihydrocodeine P, Naproxen and Meloxicam. Paracetamol tablets and suspensions garnered the most in this class at RM0.86 million worth of sales. DMG represents dermatological cream-based products and sales was fairly well-spread across the range, with plain corticosteroid products remaining at the forefront. The Gengigel range closed the year with an unexpected achievement of breaking the RM1 million barrier by the month of October 2008 for a remarkable growth of 40.2% against the previous year.

The Chronic group ended the year on a positive note, posting sales worth RM15.9 million. The results were dominated by respiratory, cardiovascular and metabolic medications, with each category contributing above RM3 million in every class. Diphenhydramine syrup and Simvastatin 20 mg were major contributors, registering sales of over RM1 million each. Meanwhile, new products introduced within the year collectively fetched RM1 million in sales. The key success factor for the Chronic group is extending its efforts to all sectors although hospitals are traditionally the main purchasers.



The Anti-infectives group continued to drive the Division with its strong contribution of RM19.3 million sales for the year under review. Antibiotics dominated this therapeutic group at an 85% contribution, with the key products being the Amoxycillin range, Erythromycin and Bacampicillin. The growth of non-BE products showed much promise. It is anticipated that BE certification in the future will drive this segment further, a year ago, Xylid, the new product launched in 2007 took off at an aggressive pace to close at above RM0.3 million.

MOVING FORWORD

Pharmaniaga will continue to strategise its marketing activities rise above the difficult market situation caused by the economic downturn. With many plans and initiatives in progress and driven by an aggressive product growth strategy, we are confident that we will continue to deliver value to our shareholders. Steered by the combination of a sales force who is the Malaysian Physicians' Choice and an award-winning manufacturing team, we are poised to achieve our aim to offer cost-effective quality medications to our customers.

With further enhancement of our new business structure and approaches of the Marketing Division, we will consolidate all our resources and strengths to weather the rough times ahead, and attain maximum impact and build an even stronger foundation for the Pharmaniaga brand.



LOGISTICS

Malaysia Operations



Abdul Malik Mohamed
Deputy General Manager,
Supply Chain Management

Nora'ni Mohamed Ali
General Manager,
Operations Finance

Nicole Lee Lai Im
Manager,
Customer Service Order Management



Nyemah Muharan
Deputy Senior Manager,
Government Sector I

Noryati Embong
Manager,
Government Sector II

Zulhazri Razali
Senior Manager,
LPO Tender

Logistics (cont'd)



Tsen Mei Fong
Manager
Kota Kinabalu Branch

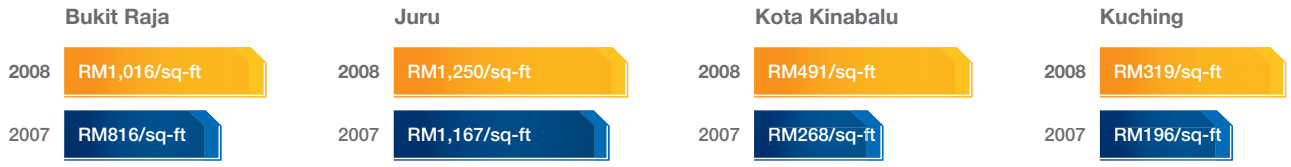
Sabtu Aman
Assistant Manager
Outbound
Bukit Raja

N. Gokul Rao
Assistant Manager
Inbound
Bukit Raja

Ahmad Abu Bakar
Manager
Juru Branch

Eunice Gan
Deputy Senior Manager
Kuching Branch

Throughput Rates



The Logistics Division is pleased to report a significant growth in the MOH APPL (Approved Product Price List) sector in the year under review. The growth in terms of sales revenue registered a 10% increase, rising from RM650 million in 2007 to RM713 million, and in terms of volume growth, it registered a 13% increase. We handled about 700 SKUs (Stock Keeping Unit) APPL products for MOH, and these products were sold to government hospitals and clinics throughout Malaysia, including Sabah and Sarawak. 2008 saw improvement in all quarters - warehousing, distribution, supply chain management and customer service.

In terms of growth in relation to the Government sector, we embarked on a special project with Jabatan Kesihatan Awam to distribute *DTaP IPV/HiB vaccines for babies born in October 2008 onwards. This project covered 8 states namely Kelantan, Terengganu, Pahang, Wilayah Persekutuan, Selangor, Sabah, WP Labuan and Sarawak, with a total value of RM8 million. This helped to boost our value with the Government sector which was seeing more conservative purchasing because of the economic situation.

In spite of the tough market outlook, our team forged ahead with tighter strategies and greater determination to achieve this growth in revenue and volume.

WAREHOUSING AND DISTRIBUTION

With constant upgrading of both facilities and technical know-how, we have become a significant division serving the Group by meeting the needs of all the companies in terms of logistics requirements. Our ability to fulfil the entire scope of services including supply chain management, logistics planning, management and integration, and employing Information Technology to serve our customers better has transformed us into a full-fledged world-class division.

* DTaP-Diththeria, Tetatnus, Acellular, Pertusis, in activated Poliomyelites, Vaccine, absorbed and Haemophilus influenzae type B conjugade vaccine.

We boast of a state-of-the-art central warehouse located in Bukit Raja, Klang. Covering 95,000 square feet, this warehouse is a bustling hub of activity as it is the convergent and divergent point for all our products. Strategically located for easy access to both the Kuala Lumpur International Airport (KLIA) and Port Klang, it is served by many arterial roads to facilitate timely movement and traffic flow.

This main warehouse is supported by three satellite warehouses in Juru, Kota Kinabalu and Kuching which primarily act as trans-shipment points serving our customers across and beyond Peninsular Malaysia.

Our warehousing throughput rate increased significantly in 2008 and this can be largely attributed to the increase in sales volume for the year. The throughput rate is calculated by dividing the sum of the total value of deliveries and the total value of receipts (RM) by the total warehouse floor space (sq-ft). At our main warehouse in Bukit Raja, the annual recorded average is RM1,016/sq-ft per month, an increase from RM816/sq-ft in 2007, which translates to an increment of 25%. This trend was also observed at all the other three warehouses. In Juru, the annual recorded figure is RM1,250/sq-ft, up from RM1,167/sq-ft in 2007. In Kota Kinabalu, the rate rose from RM268/sq-ft in 2007 to RM491/sq-ft in 2008 and in Kuching, it increased from RM196/sq-ft in 2007 to RM319/sq-ft.



Logistics (cont'd)

APPLYING INFORMATION TECHNOLOGY TO SERVE CUSTOMERS BETTER

We are constantly raising the bar for providing quality and timely service to all our customers, and have applied advanced Information Technology to achieve our aim. Our systems and processes have improved the management of order and inventory at hospitals and clinics. This was the result of the implementation of Pharma*Net, the first nationwide pharmaceutical on-line network, linking hospitals and clinics to Pharmaniaga warehouses. This provides our key customers with direct on-line ordering and order status enquiries.

We have also upgraded the Hospital Inventory System (HIS) to Integrated Hospital Inventory System (IHIS) which enables effective monitoring and management of drug inventories not just from warehouses to hospitals but also within the hospital itself. To date, 2 hospitals have successfully installed and implemented IHIS, and we expect 3 more to come on board in 2009.

One of the true results of these innovations is that the Logistics Division has registered a marked improvement on delivery timelines. We managed to maintain a delivery rate of within 48 hours for base orders. While for our outstation orders, our average delivery falls within 5 days, and our aim of delivery is to achieve 3 days for central areas and major towns like Johor Bahru, Melaka, Penang and Ipoh.

Order fulfilment for APPL exceeded targets with number of order lines increasing from 318,288 in 2007 to 642,522 in 2008. We also maintained an average of 96% deliveries within 60 days, the same as the previous year's.

For the year under review, we registered 684 complaints from customers and managed to close 556 cases, leaving 18.7% that is still in progress.



OUR PRINCIPAL LINES

For the year under review, we partnered with 4 active principals, namely B. Braun, Ranbaxy, Steriline and Biocare. Except for the first principal with whom we had a net delivery arrangement, we provided complete service from order processing to distribution and warehousing. For Steriline, we operated on a consignment basis and were remunerated a percentage of the fee for the services provided.

STANDARDS AND ACCREDITATIONS

In line with our Mission to deliver maximum value to our customers through superior quality products and services, we constantly strive to meet and exceed industry standards. From 15 to 17 December 2008, we successfully underwent a reassessment audit by SIRIM for the standards of ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:2007 at Bukit Raja as well as at our Juru and Sabah branches.





The scope of the audit for the three integrated standards covers provision for Procurement, Storage and Distribution of Pharmaceutical and Medical products. This has reaffirmed our compliance with industry requirements. The implementation of Environment, Safety and Health (ESH) principles and the Quality Management System has also been adequately maintained in line with the Group's policies, objectives and procedures.

ACKNOWLEDGING OUR VALUED PARTNERS

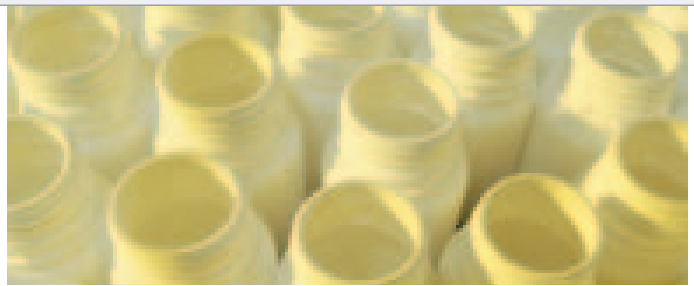
Maintaining a mutually beneficial partnership with our vendors and suppliers is key to our success. On 22 July 2008, we hosted the Vendor Excellence Awards to recognise those contract suppliers who have invested extraordinary effort and initiative in supporting Pharmaniaga to provide products and services of the highest quality to the Ministry of Health (MOH). The categories for the awards and the winners which had been endorsed by the MOH Liaison Committee, were:

1. Vendor Ubat-ubatan Terbaik melebihi RM10 juta - Ain Medicare Sdn Bhd (Winner)
2. Vendor Ubat-ubatan Terbaik kurang dari RM10 juta - Novo Nordisk Pharma (M) Sdn Bhd (Winner)
3. Vendor Peralatan Perubatan Terbaik - Pelantar Jaya (M) Sdn Bhd (Winner)
4. Vendor Cemerlang Skim Anak Angkat - Idaman Pharma Sdn Bhd (Winner)

Our continued Dialogue Sessions with MOH representatives on a state to state basis have proved to be very effective, providing us with valuable feedback and insights, with plans to hold at least two sessions a year with every Jabatan Kesihatan Negeri or State Health Department.

MOVING FORWARD

In the critical year ahead, when the country is anticipating minimal growth across all sectors, and purchasing by both the Government and private sectors is expected to be conservative, the Logistics Division will strive to further strengthen our business fundamentals. We will consolidate our systems and procedures which are already in place and continue to grow our people, in pursuit of operational excellence. We believe that serving our customers with our utmost ability and resources will put us on track to continued growth and further business development. This will in turn help us to reach our objective of value creation for our shareholders. Thus we will continue to be proactive in improving our service level, understanding market trends and pre-empting the competition. Our focus will always be "to deliver the right products in the right quantity and quality to the right place and at the right time".



LOGISTICS

Indonesia Operations



Zaki Abdul Aziz bin M. H. Daud
Executive Director
MPI

Abd. Rahman bin Abdullah Thani
President Director
MPI

Darmawan Subekti
Finance Director
MPI

PT Millennium Pharmacon International Tbk (MPI), the Group's listed unit in Indonesia which distributes and trades pharmaceutical, food supplement and diagnostic products has again produced admirable growth exceeding the market for 2008.

Net Sales grew by 24.3% from IDR 705 billion in 2007 to IDR 876 billion in 2008 while the overall market growth in Indonesia is around 12% - 13%.

Despite the high inflation rate of 11.06% (Central Bureau of Statistics) and rising operating cost due to the economic downturn, MPI still managed to post a healthy profit. Net profit was IDR 9.5 billion (RM3.1 million) as compared to IDR 9.6 billion (RM3.6 million) in 2007.

STRENGTHENING OUR PRESENCE AND INFRASTRUCTURE

MPI had successfully secured one new principal, bringing the total to 18 in its stable. This is evident of the company's expertise in handling deliveries of pharmaceutical and healthcare products and the trust that it has gained within the industry in Indonesia. In addition, an existing principal has further increased the product range for distribution by MPI.

During the year, MPI opened its 26th and 27th branches in Pontianak and Samarinda in Kalimantan, increasing its distribution points to forty six including five sub distributors and fourteen sales stations.

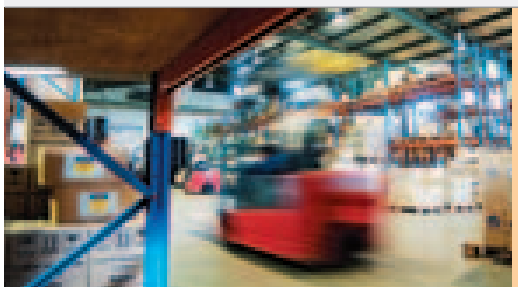
MPI is currently evaluating the need to open two new branches in the current year to provide more effective coverage for the products of its principals.

The company is also rolling out the implementation of Oracle Enterprise Resource Planning (ERP) system. The phase 2 implementation is targeted to be completed, nationwide, by July 2009.

MOVING FORWARD

2009 will be even more challenging with the proposed implementation of Good Distribution Practice (GDP) in Indonesia for distributors of pharmaceutical and health products. MPI has planned to upgrade its current infrastructure in order to meet this challenge.

The future outlook is optimistic, and with the additional principal and increase in product lines, MPI is budgeting to outgrow the expected market growth of 10% in 2009.





MEDICAL PRODUCTS & SERVICES

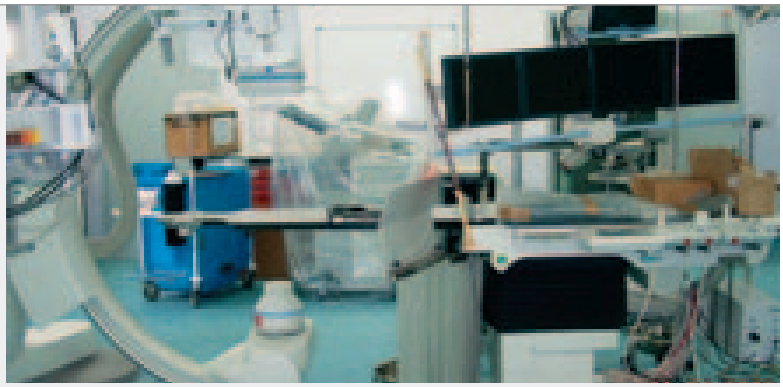


Norshakina Hashim
Manager,
Procurement & Contract Management

Abd Shukor Jamaluddin
Senior Manager,
Medical Equipment Unit

Low Cheng Gek
Assistant Manager,
Project Development

Mohd Suhairi Abdul Jalil
Manager,
Project Management



Pharmaniaga Biomedical Sdn Bhd is the unit that carries out the business of medical equipment planning, hospital equipping and equipment supply. The financial year 2008 was a better year for this Division, as we posted a profit before tax of RM0.4 million on a revenue of RM28 million, as compared to a loss before tax of RM5.1 million on a revenue of RM8.5 million in 2007.

This vast improvement in our financial performance in spite of the economic downturn especially in the second half of 2008 is largely due to continuous efforts to maintain our leadership stance in the local market as well as new business development overseas.

During the year, our Division completed the 2-year warranty management period of its single remaining hospital project in East Malaysia, the Pitas Hospital. We also continue to act as the procurement advisor and project site co-ordinator for the supply of medical equipment to UEMC for the extension and renovation project of the National Heart Institute (IJN). In addition, we were also awarded and completed the contracts to supply medical equipment to the International Islamic University of Malaysia in Kuantan.

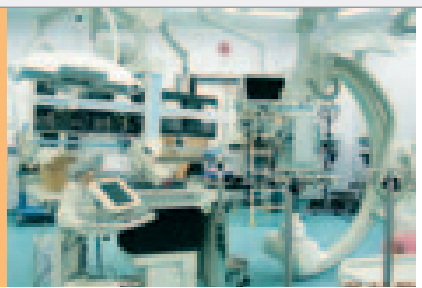
With the completion of these projects, our Division realigned its focus to new business development activities, both in Malaysia and selected countries such as the member countries of the Gulf Cooperation Council (GCC), Jordan, India and Indonesia.

While developing our core competencies in project-based revenue generating activities, we are pro-actively responding to the market situation by offering innovative financing schemes to develop business opportunities in the supply of medical equipment.

The success of the Division hinges largely upon the skills, capabilities and mindset of our human capital. By providing training, opportunities and incentives for in-house talents to transform, grow and develop their best potentials, we are reinforcing our core competencies to further expand the Group's business.

MOVING FORWARD

The Medical Products & Services Division will employ more aggressive strategies to ensure our continued strong presence in the future business environment. In the coming year, the Division will proactively address and leverage on business opportunities, both locally and internationally, for further growth and expansion.



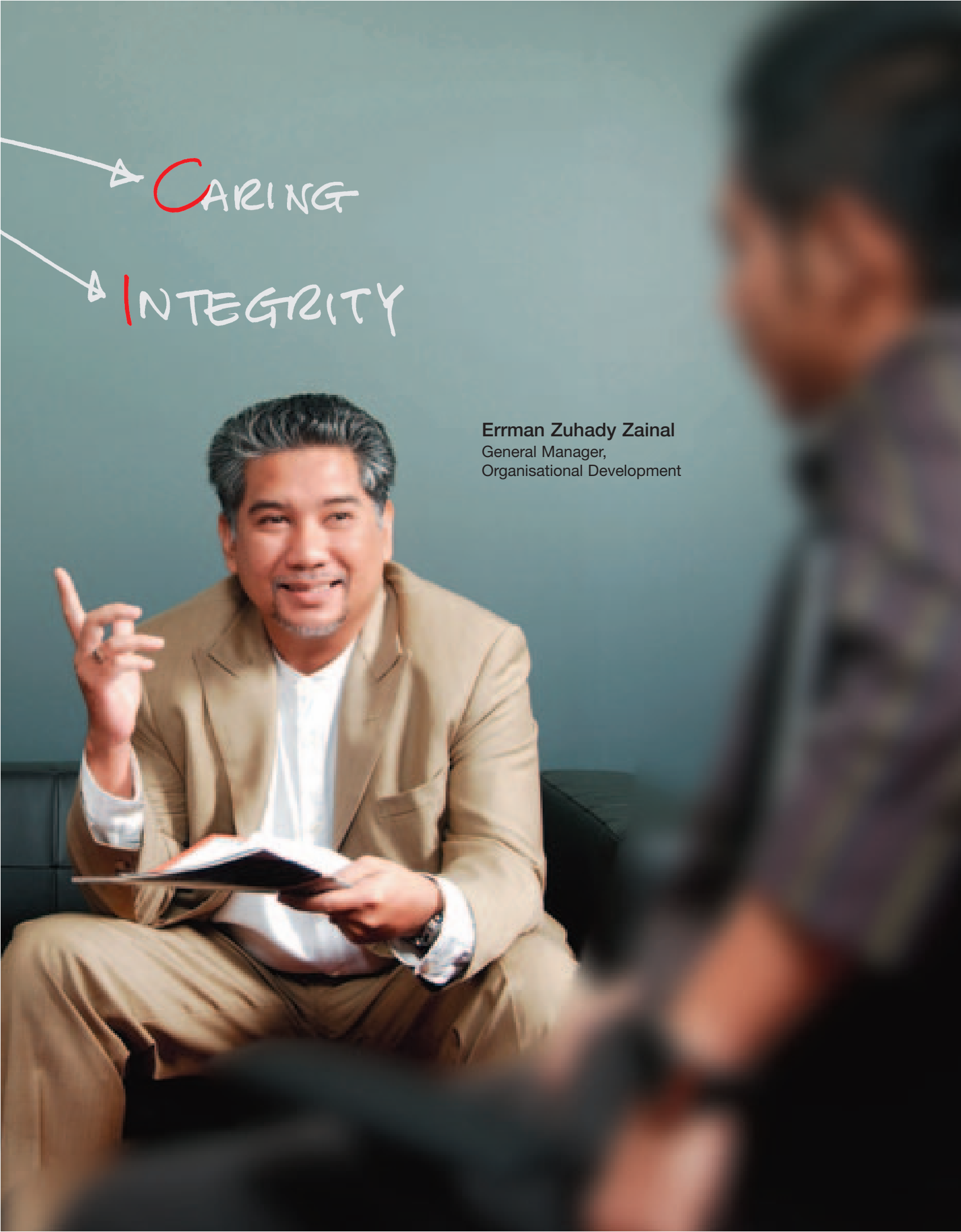


Building solid investment!

We understand the need to develop and create a sustainable future. Hence, at Pharmaniaga, we invest in more than just our strategies. Building on our resources, we constantly seek to improve our human capitals to deliver solid and trusted solutions.

CARING

INTEGRITY



Errman Zuhady Zainal
General Manager,
Organisational Development

HUMAN CAPITAL DEVELOPMENT



Aspalela Ramly
Manager,
Reward & Recognition

Abdul Aziz Jameran
Deputy Senior Manager,
OD & Recruitment

Pharmaniaga Group holds firmly to the belief that our strength lies fundamentally in the quality of our people. It is the people that propel the company forward through innovative product development, insightful planning, diligent operations control, strategic marketing campaigns and sound management. The Pharmaniaga team is a dynamic, highly motivated and unified force working effectively together to ensure that your Company runs smoothly, and bringing constant improvement to all areas.

As a Group, we will continue to focus on developing our human capital, to ensure that our employees are presented with every opportunity to realise their highest potential as they work towards achieving the Company's mission and their department's goals. The Organisational Development Division strives to achieve this objective which is echoed in its mission - to support, honour and value our people - through dedicated programmes that promote education and improvement in both personal and professional skills.

RECRUITMENT AND ORGANISATIONAL DEVELOPMENT

Pharmaniaga has always strived in recruiting the best talents in terms of capability and suitability, with the underlying principle of attracting people who will blend and subscribe to the company's high performance culture and shared values. Our recruitment exercise, from the senior to junior level, has also been carefully carried out to enable the attraction / appointment of the right talent / candidate in the right job.

Employer branding has been one of the key areas being emphasised in the attraction strategy, from the entry level to the senior positions. Your Company participated in career fairs and talks at several universities to increase awareness of our Group's activities amongst the students and graduates. At the same time, we also carried out recruitment exercises to attract the best talents into the industry. We had participated in career fairs and talks at:-

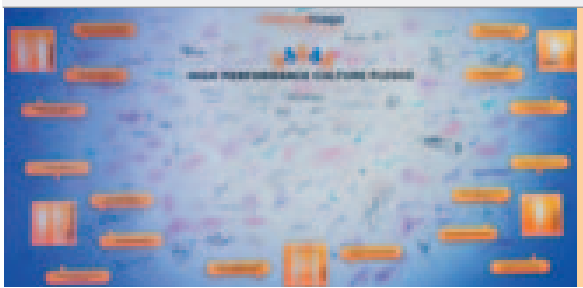
- Universiti Teknologi MARA (UiTM) in February 2008
- International Islamic University Malaysia (IIUM) in March 2008
- Taylor's University College in April 2008
- Universiti Kebangsaan Malaysia (UKM) in January 2008 and October 2008
- My Career Education & Entrepreneur Fair in November 2008

Pharmaniaga also continued to present deserving students with Book Prize Awards at IIUM, UiTM and UKM, as our contribution towards encouraging academic excellence.

BUILDING A HIGH PERFORMANCE CULTURE (HPC)

In an effort to enhance the development of the people, a high performance culture initiative was launched with the identification of and commitment to the shared values of **T**eamwork, **O**pen Communication, **P**assion for Excellence, **I**ntegrity & Honesty and **C**aring. This brought into life the HPC TOPIC which would form as pillars of the people development and change management towards a world class organisation by year 2013.

This initiative started off with a brainstorming session attended by all Senior Management team members. Subsequently, a series of workshops was conducted to bring HPC TOPIC to life and action. The memorable acronym was an effective reminder of the values of high





Human Capital Development (cont'd)

priority in the company and it was soon imparted and translated in the mind of every Pharmaniaga employee. A survey carried out in August 2008 amongst employees showed that 86% believed that the HPC TOPIC was indeed in action. As part of the programme, we held the inaugural "Familybration 2008" in Port Dickson. The Employee Climate Survey carried out during 2008 showed increasing positive response, registering 70.2% compared to only 60% in previous year.

LEADERSHIP DEVELOPMENT AND TRAINING

Pharmaniaga continues to drive a performance-oriented culture and meritocracy. High performing individuals are suitably rewarded and promoted to leadership positions. We leverage on the UEM Group initiatives for leadership development programme, with participation in the Competence Gap Analysis for those in managerial positions and higher.

We also advocate a lifelong learning experience among our employees and sponsor deserving individuals for various technical and behavioural in-house or external training programmes to improve competencies. 30 managers and executives are pursuing Masters degree programmes either with UEM Academy or public universities such as University of Strathclyde, UK and Manchester Business School, University of Manchester, UK, on a part-time basis.

In November 2008, a Succession Plan framework was drawn up and presented to the Board, with a view to identify suitable successors while conducting individual development analyses with plans to ensure a smooth transition for key positions. Pharmaniaga has also leveraged on the UEM Succession Plan where 8 pivotal positions were submitted and 3 respective successors are being evaluated on their competencies and readiness.

AN ENVIRONMENT CONDUCIVE TO PRODUCTIVITY

The Pharmaniaga Group aspires to be an employer of choice globally, practising equal opportunity and disbursing appropriate incentives and rewards. Key Performance Indicators (KPI) and Performance Management Systems (PMS) have been designed to support our performance-oriented culture.

Pharmaniaga is committed to helping its employees achieve personal success - with educational assistance and healthy lifestyle benefits. Convenient on-site services include a cafeteria, medical services, free vaccinations, Biro Angkasa credit facilities and free health talks by certified organisations and individuals are provided to enhance employees' lifestyle. We also encourage and support employee driven activities which promote teamwork and open communication, reflecting the ideals of our nation.

In 2008, the surau committee was set up and organised several Islamic programmes. We also saw the unification of various sports clubs within the Group to form one body under one banner - the Pharmaniaga Sports Club. Last but certainly not least, Joint Consultative Council (JCC) was set up with the elected representatives from various branches and divisions coming together to provide a safe and effective channel for employees to voice their grievances and concerns.

MOVING FORWARD

We will continue with our plans and strategies in conducting more development and incentive programmes to ensure that we do not lose the momentum that we have gained through our activities in 2008. We are confident that HPC TOPIC is firmly in place and the values of Teamwork, Open Communication, Passion for Excellence, Integrity & Honesty and Caring are being manifested at all levels, and that of our human capital will continue to prove to be our greatest asset.







Creating Sustainable Communities

Through strong determination and solid commitments, our drive to nurture a sustainable environment is derived from our intentions to create a community that cares. Building on our fundamentals, we strive to achieve the best in balancing our values and the importance of the community.

CORPORATE SOCIAL RESPONSIBILITY

The role of corporations as responsible citizens, working collaboratively with the government, stakeholders, non-governmental organisations (NGOs) and consumers, is rapidly evolving. This is partly attributed to the power of the media and the internet which, has greatly increased the public's interest in and scrutiny of corporate governance and collective activism around corporate behaviour.

As a proactive contributor to the nation's healthcare services, Pharmaniaga intensified its Corporate Social Responsibility (CSR) initiatives throughout 2008 to complement our manufacturing and logistics operations, to benefit our community particularly via Skuad Operasi Sihat (SOS) and Ayuh Kayuh (AK).

A special budget was set aside as our gesture to give something back to the community, especially to the needy and disadvantaged ones. Efforts were also made to align our activities to the Silver Book and the 9th Malaysian Plan. The Silver Book is a government initiative with guidelines that govern social contributions by Government Linked Companies, encapsulated in 7 core areas.

Aligning to the Silver Book

	7 Core CSR Areas	SOS	AK
1	Human Rights	v	v
2	Employee Welfare	v	v
3	Customer Service	v	v
4	Supplier Partnership	±	±
5	Environmental Protection	v	v
6	Community Involvement	v	v
7	Ethical Business Behaviour	±	±

SKUAD OPERASI SIHAT

First launched at Dataran Labis, Johor on 2 November 2007 by the Minister for Health, SOS galvanised caring Pharmaniaga employees to partner the Ministry of Health (MOH) and MERCY Malaysia to extend basic health education, counselling service and medical check-ups to the general public.

SOS serves to complement the MOH district and rural healthcare services with our participation in community events such as Hari Terbuka, Kempen Kenali Ubat, Hari Kualiti, as well as Safety & Health seminars and other conferences.

Whilst MOH was our main partner in this initiative, SOS activities were also carried out in association with:

- Institutions of higher learning e.g. International Medical University (IMU), Universiti Teknologi Mara (UiTM), Penang Medical College (PMC), Universiti Malaysia Sabah (UMS) and Universiti Kebangsaan Malaysia (UKM).
- NGOs e.g. MERCY Malaysia, Lions Club, Ti-Ratana.
- Government agencies e.g. Agensi Anti Dadah Kebangsaan (AADK), Ministry of Education, Majlis Pemulihan Orang-Orang Cacat and Jabatan Perpaduan Negara.



Skuad Operasi Sihat

- Orphanages namely Asrama Damai, Kuang and Agatha's Shelter Home, PJ.
- Media e.g. NSTP, Media Prima and Karangkraf.

Typically, each SOS mission involves:

- Providing basic check-ups for height, weight, Body Mass Index (BMI), blood pressure, blood glucose and cholesterol levels.
- Prescriptions and referrals from attending medical officers from MOH/MERCY Malaysia.
- Dispensing free vitamins (Citrex) and supplements (InnoHerb), as well as relevant over-the-counter (OTC) medications to treat common ailments e.g. fever and flu.
- Normalising the BMI via adopting the Food Pyramid and a healthy lifestyle.
- Community service activities such as "gotong-royong" are organised to assist in the cleaning up of villages, repainting walls, as well as organising fun and games for the children.

2008 saw SOS growing in experience and maturity. Snowballing from the enthusiastic interest and response received at the inception of SOS Bukit Raja in November 2007, four more SOS units eventually were set up:

April 2008 : SOS Juru
August 2008 : SOS Kota Kinabalu
August 2008 : SOS Bangi
December 2008 : SOS Kuching

We have currently over 100 employees who serve as volunteers. They are offered internal trainings with opportunities to attend Volunteer Induction Programmes (VIP) and Basic Mission Training (BMT) courses offered by MERCY Malaysia.

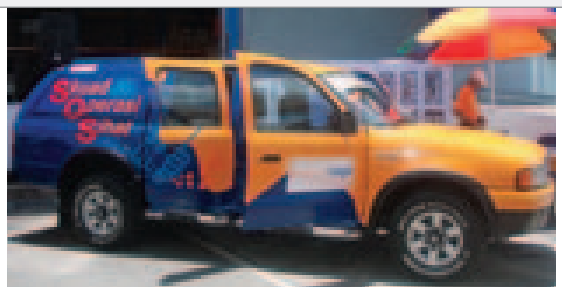
What our volunteers may lack in medical knowledge was certainly well compensated for by their undeterred spirit of goodwill, vigour and tender loving care in giving and sharing with the communities, in line with our shared values of TOPIC.

Not forgetting the plight of our orphans, Pharmaniaga and SOS established close ties with 2 orphanages i.e. Asrama Damai, Kuang (125 children) and Agatha's Shelter Home, Petaling Jaya (30 children). SOS brought cheer to them with special programmes held in conjunction with Ramadhan, Aidil Fitri and Christmas. The bond will be strengthened further with 4 programmes to be run with each of the 2 orphanages in 2009 covering their medical, educational and sporting needs.

The current Mercedes Mobile Clinic based in Bukit Raja has been driven across and beyond padi fields, oil palm and rubber plantations within peninsular Malaysia, as we enrich the lives of the poor, needy and disadvantaged communities with our services. In August 2008, we converted one of our 4WD Ford Rangers into another SOS utility vehicle to be used to ferry our volunteers and supplies to serve our mission needs within Sabah. A Toyota Hiace van is now converted as our mobile clinic to serve the northern region, based in our Juru branch office.

In total, SOS carried out close to 90 missions covering all 14 states of Malaysia. Some of these were graced by VIPs like the local ADUNs and Members of Parliament and State Health Directors, while the majority were managed at various other levels "with the community and for the community".

Being responsive and compassionate to regional and global disasters, and relief missions, SOS also contributed goods-in-kind worth around RM60,000 to victims of the massive floods in Myanmar and the earthquake in central China.





Corporate Social Responsibility (cont'd)

AYUH KAYUH

A major environmental CSR campaign initiated by the Corporate Communications Department is Ayuh Kayuh (AK), to encourage employees to cycle to work. Its objective is to promote the bicycle as a serious alternative transportation to the motor vehicle, in order to cut emission of greenhouse gases and therefore slow down global warming. It is also intended to fight the world food crisis by decreasing the demand for fossil fuel and bio-diesel. Of course, on top of all this, employees also benefit by saving money and getting some exercise.

Pharmaniaga saved 22 kg of CO^2 on World Environment Day 2008

In conjunction with World Environment Day on 5 May 2008, AK adopted the theme "Kick the Habit: Towards a Low Carbon Economy" for a campaign to promote car-less commuting and to generate company-wide awareness on climate change. Pharmaniaga offered employees in Bukit Raja a mystery gift simply for leaving their cars at home and coming to work by other low or no carbon means, choosing from 6 modes of transport: public transportation, carpooling, bicycle, rollerblade/skateboard, jogging or walking.

4 employees took up the challenge and by calculating the distances between the employees' homes and Bukit Raja, and multiplying it by the average CO^2 emission produced by a car per km, Pharmaniaga managed to measure the result - 22 kg of CO^2 was saved from being released into the atmosphere. 4 employees and 22 kg may not seem like a lot, but it is definitely a step in the right direction. And with continued efforts to encourage more responsible means of commuting and a low-carbon lifestyle, the effect will be significant and worthwhile.

In 2008, Ayuh Kayuh supported the following World Days:

World Day	Theme	Ayuh Kayuh Activities
World Kidney Day 13 March 2008	Amazing Kidney	Awareness campaign on the importance of exercise, especially cycling, to maintain healthy kidneys
World Health Day 7 April 2008	Protecting Health from Climate Change	Pharmaniaga Health Carnival held at Cyberjaya to promote healthy lifestyle, which included cycling
World Earth Day 22 April 2008	A Call for Climate	Awareness campaign on the dangers of pollution to the planet, and its contribution to global warming
World Environment Day 5 May 2008	Kick the Habit: Towards a Low Carbon Economy	A call to employees to not drive their cars for one day, - World Environment Day
World Heart Day 28 September 2008	Know Your Risks	A message to employees how cardiovascular exercise like cycling can help create a healthy heart
World Food Day 16 October 2008	World Food Security: The Challenges of Climate Change and Bioenergy	A "Ride to Food" cyclethon to address mankind's Right to Food





Pharmaniaga's "Ride to Food" Celebrated Human's Right to Food on World Food Day 2008

Your Managing Director, Mohamad Abdullah joined 37 other cyclists in another AK programme, the "Ride to Food", held in conjunction with World Food Day (WFD) on 16 October 2008.

In line with the theme for WFD 2008, "World Food Security: the Challenges of Climate Change and Bioenergy", Pharmaniaga's "Ride to Food" continued to promote AK to fight the world food crisis by decreasing the demand for fossil fuel and bio-diesel and arrest the effects of climate change on agriculture. "Ride to Food" addressed the following issues:

- **There is famine in many countries** and people are dying of malnourishment, of starvation, and of related diseases. Many of them, including children, live on the streets, with no shelter, no jobs, and no hope of improvement in the foreseeable future.
- **Access to health care is almost non-existent** and millions die of diseases that are easily preventable or curable like diarrhoea, pneumonia and measles, simply because medicine is unavailable, either due to poverty or extreme weather conditions.
- **Access to education is very limited** and therefore, there is no opportunity or hope for improvement, especially among those who are starving, dying of diseases and without shelter or clothing.
- **Pregnancy related illnesses is becoming common.** Part of the headline grabbing activities of "Ride to Food" was the distribution of food packs containing wholegrain biscuits, UHT milk and a fruit to customers at Klinik Ibu & Anak of Poliklinik Shah Alam to create awareness on healthy eating among pregnant and lactating mothers.

In a simple ceremony held at Poliklinik Shah Alam, Pharmaniaga also handed over 15 bicycles to Pejabat Kesihatan Daerah (PKD) Petaling to be used by the PKD "Combi Brigade" in place of their motorcycles and cars when conducting community education workshops and health inspections for 5 sectors within Shah Alam.

Aligning to the Major 13 Principles of CSR in the 9th Malaysian Plan

	13 Principles in 9th Malaysia Plan	SOS	AK
1	Strengthen Agrico-Based Industry		v
2	Enhance Tourism	v	v
3	Enhance Bumiputera's Economic Equity	v	v
4	Promote Knowledge & Innovation	v	v
5	Effective Women Participation	v	v
6	Youth Empowerment	v	v
7	Family & Community Development	v	v
8	Address Rural Gaps	v	v
9	Balanced Regional Development	v	v
10	Accommodation for Low Incomers		v
11	Environmental Conservation	v	v
12	Emphasis on Arts & Culture		v
13	Improved Quality of Life via Sports & Health	v	v





ENVIRONMENT, SAFETY & HEALTH



It is imperative that Environment, Safety and Health standards are constantly monitored and maintained and Pharmaniaga places uncompromising priority on these areas. We instill best practices and have processes in place to ensure that in the course of our operations, we do not bring negative impact to the environment and the community we serve. We also ensure that the health, safety and well-being of our employees, customers and stakeholders are safeguarded in everything we do.

Integrated Quality Management System

Over the years, your Company has set in place an extensive and comprehensive Environment, Safety and Health (ESH) system with performance indicators to measure its effectiveness. Adherence to this initiative, via selected committees, has resulted in the Group maintaining the standards and accreditations that we have attained with various statutory bodies.

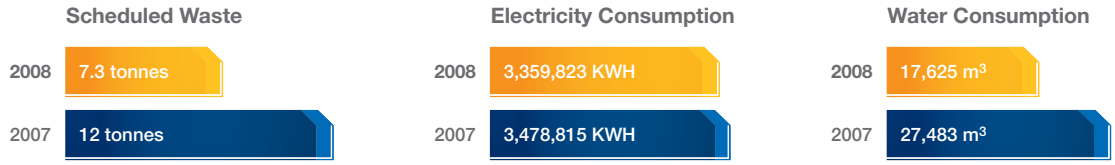
The recertification audit of Pharmaniaga Logistics Sdn Bhd by SIRIM for the Standards of MS ISO 9001:2000, MS ISO 14001:2004 and OHSAS 18001:2007 was successfully conducted from 15 to 17 December 2008 at Bukit Raja as well as at our branches in Juru and Sabah.

The audit scope for the 3 integrated Standards is Provision for Procurement, Storage and Distribution of Pharmaceutical and Medical Products. The result of the audit is that Pharmaniaga Logistics Sdn Bhd is complying and meeting with the requirements of these three standard specifications. The implementation of ESH and Quality Management System was also found to have been adequately maintained, in line with the established Policies, Objectives and Procedures of the company.

Activities that Protect the Environment

As a responsible corporate citizen, Pharmaniaga practices conservation of resources throughout our research and development, manufacturing and distribution processes. This reflects our concern for resource sufficiency in the communities in which we operate and which we serve. Your Company also strives to effectively reduce its carbon footprint and minimise its environmental impact, manage waste and reduce emissions to the earth's atmosphere. ESH values are emphasised at every level of our organisation.





Scheduled Waste

Scheduled waste is defined as any material, solid and liquid, that can no longer be used as it was originally intended and must be modified in some way for beneficial reuse or destroyed to render it harmless to human health and the environment.

In this respect, we managed to reduce Scheduled Waste in the year 2008 by 39.2% or 4.7 tonnes. A total of 12 tonnes of Scheduled Waste was generated in the year 2007 and in 2008, this was reduced to 7.3 tonnes. The reduction was due largely to the establishment of a proper inventory control system as well as closer monitoring and management.

Nonhazardous Waste

Pharmaniaga continues to implement and promote recycling as a preferred alternative to disposing of nonhazardous wastes. As a matter of routine procedure, your Company recycles or reuses materials like boxes, cartons and wooden pallets.

Effluents to Water

The treatment and management of wastewater effluents is governed by strict guidelines to ensure that the quality of the water in the environment is not jeopardised. Pharmaniaga continues to meet the Standard A requirements for the quality of effluent water discharged from our facility.

Energy Conservation

In the year 2008, we enhanced our energy conservation efforts by installing control timers for some of the air-conditioning equipment such as Chiller sets, Air Handling units and Fan Coil units. All this equipment operates 24 hours a day to supply air-conditioning for the Warehouse, maintaining the temperature at below 25°C.

This exercise of using timers effectively helped to reduce the operating hours of the air-conditioning equipment at the Warehouse area, especially during the night. We managed to reduce the electricity consumption by 3.43% (118,992 KWH) in 2008. The total electricity consumption in the year 2007 was 3,478,815 KWH and this dropped to 3,359,823 KWH in 2008. Plans are in the pipeline to install energy saving equipment at the Main Electrical Switch Boards to further reduce the electrical energy consumption in the year 2009.

Water Conservation

In the year 2008, your Company managed to reduce water consumption by a huge 35.87% (9,858 m^3). Total water consumption in the year 2007 was 27,483 m^3 and for 2008, we consumed 17,625 m^3. This savings was achieved through the reduction in the operation hours of the Chiller system which supplies air-conditioning for the Warehouse during the night effected by the installation of control timers.

Noise and Odours

The levels of noise and odours from our operations are carefully monitored to ensure that they do not exceed the permissible level. Pharmaniaga is committed to working with our neighbours to ensure that the community is not affected or inconvenienced and the environment is not negatively impacted.

Air Emissions

The readings of our air quality have always been favourable, being well below the limits set by the Malaysian Environment Quality Act. The average of particulate level is measured around 0.0185 g/Nm^3, against the requirement level of 0.4 g/Nm^3.





Environment, Safety & Health (cont'd)

Energy Programme

To constantly advocate the importance of energy management and conservation, every division is required to develop and maintain a programme based on the characteristics of its specific operational situations. These programmes, which may be integrated with other Company initiatives, are reviewed by the ESH Committee annually, and reports are submitted to the senior management.

Pedal Power

One of the most impactful and interactive campaigns relevant to energy and environment conservation is the Ayuh Kayuh (AK) initiative. *(See Page 120 for more information on AK.)*

OCCUPATIONAL SAFETY AND HEALTH

Pharmaniaga continues to prove that safety and health at the workplace can be effectively regulated by proper management procedures that have been clearly communicated to employees at all levels. The realisation of the importance of occupational safety and an understanding of the guidelines and their observance has resulted in a commendable safety record at your Company.

In the year under review, no fatality cases were reported, and only 5 accidents were reported, as compared to 23 in 2007. All the accidents were minor incidents, and first aid was administered to the employees involved, as injuries were slight. There were 6 near miss cases, an increase from only 1 report in 2007. This reflects an increased level of alertness, as well as an increase in the awareness of the need to report incidents. Several programmes are in place to continue to reduce the risk level of exposure to hazards at work, and to further enhance the management and reporting systems. A total of 441,932 accident free hours was achieved in 2008, as compared to 1,833,393 in 2007.



In compliance with requirement in 2008, we held four ESH meetings and implemented four workplace inspections. We also conducted a Fire Drill Exercise and other health and safety awareness programmes during the year. Integrated Quality Management System meetings were also held during the year to satisfy our regulatory, environmental and business requirements. We did not receive any complaints on noncompliance issues pertaining to environment, safety and health in 2008 from any external parties or statutory bodies.



ENVIRONMENTAL, SAFETY AND HEALTH PROGRAMMES

Various activities on environmental, safety and health were held during the year to educate employees as well as external parties involved in the day-to-day operations at Pharmaniaga. These included:

ESH awareness activities carried out in 2008 at Bukit Raja Warehouse

No.	Awareness Programme	Provider	Duration	Date
1.	Fire Prevention Awareness Talk & Presentation	Fire Prevention Service Consultancy	2 hours	25/3/08
2.	Blood Donation Campaign	Tengku Ampuan Rahimah Klang Hospital	7 hours	26/5/08
3.	Road Safety Exhibition	JKJR, Ministry of Transport	1 day	15/7/08
4.	Blood Donation Campaign	Tengku Ampuan Rahimah Klang Hospital	6 hours	4/11/08
5.	Free Eye Check Up	Danish Optical	7 hours	11/11/08
6.	"I love tree" Programme	Compliance	1 hour	20/11/08
7.	Free Flu Vaccination Programme	Sanofi (supplier)	7 hours	27/11/08
8.	ESH & Quality IQ Test	Compliance	1 hour	4/12/08
9.	Free Bone Check Up	Fonterra Brands (M) Sdn Bhd	7 hours	15/12/08

ESH awareness activities carried out in 2008 at Bangi Plant

No.	Awareness Programme	Provider	Duration	Date
1.	Reflexology	Ergonomic committee	6 hours	26/6/08
2.	PPE Training	PPE committee / Vibrocon	1/2 day	30/6/08
3.	OHSAS 18001:2007 Training	Neville Clark	2 days	1-2/7/08
4.	Chemical Spillage Drill	Chemical Control / Vibracon	1/2 day	10/7/08
5.	Health Talk - How to handle stress	Dr. Norizzati Bukhary from Klinik Kesihatan BBB	1/2 day	11/7/08
6.	Quiz & game & Exbitions on Confined space	Confined space committee	1/2 day	29/7/08
7.	Win Win GMP Games Part II	Awareness Committee	1/2 day	29/7/08
8.	Extinguishing Fire	FRT committee	1/2 day	30/7/08
9.	Blood Donation	First Aid Committee / PDN	1 day	1/8/08
10.	Safety Hunt	KSR & All Committee	1 day	2/8/08





GROUP CORPORATE CALENDAR













'08

1 19-20 February
Pharmaniaga Logistics Sabah Branch Family Day

2 21 February
Yee Sang at Concorde Shah Alam - celebrated among Senior Management and Chinese staff

3 1 March
Stephen Sze was appointed as Chief Operating Officer of Pharmaniaga Berhad

4 11 March
Donation of exercise equipment to Kelab Warga Emas at Klinik Kesihatan Petaling Jaya (KKPJ)

5 1 April
Visit by MIGHT (Malaysian Industry Government Group for High Technology) in conjunction with an award ceremony to commemorate the 15-year partnership with Pharmaniaga

6 18 April
Pharmaniaga bagged one Gold, six Silver and three Bronze trophies in the Continuous Improvement Competition (CIC) 2007 held at UEM Academy Pharmaniaga Berhad

7 26 April
Pharmaniaga won 3rd place in the UEM Bowling Tournament

8 3 May
The Pharmaniaga Surau Committee organised Sambutan Maulidur Rasul

9 22 May
10th Annual General Meeting at Concorde Shah Alam

10 27 May
Pharmaniaga received the QMEA (Quality Management Excellence Award) from MITI (Malaysia International Trade & Industry) award in Kuala Lumpur

11 31 May
"Gotong royong" to clean up the office premise was organised to foster close relationship among employees and instill a sense of ownership















12 **13 June**
Frost and Sullivans Awards received in Singapore

13 **14-15 June**
Skuad Operasi Sihat or SOS partnered International Medical University to run Health Awareness Programme and Program Keluarga Angkat Batu Pahat Johor

14 **19 July**
Dinner Gathering for Senior Management at Tasik Cruise Putrajaya

15 **22 July**
Anugerah Vendor Cemerlang 2007 at Sheraton Subang Hotel and Towers

16 **24 July**
Pharmaniaga Logistics Juru branch celebrated its 10th-year anniversary

17 **16 August**
Pharmaniaga Golf Invitational 2008 was held

18 **19 August**
The launch of "Bulan Kemerdekaan" to celebrate the "Merdeka" week

19 **22-23 August**
SOS took part in the Media Prima Open Day-Health Carnival organised by NSTP and ING Insurance

20 **24 August**
Kayuhan Ambang Merdeka, an Ayuh Kayuh activity that included a "gotong royong" to clean up Pantai Klanang

21 **28 August**
The Soft Launch of SOS Kota Kinabalu chapter at Branch Office in Kota Kinabalu

Group Corporate Calendar (cont'd)













'08

22 31 August
SOS provided health screening to the residents of Bentong town in Pahang in conjunction with the annual Bentong 3x3 Basketball

23 5 October
The Corporate Communications Department and the Surau Committee organised Sambutan Ramadhan in Bukit Raja

24 16 October
Ayuh Kayuh "Ride to Food" held in conjunction with World Food Day 2008

25 23 October
Jalinan Mesra Aidilfitri Pharmaniaga was the biggest Aidilfitri celebration ever in Bukit Raja and was attended by the neighbouring companies

26 30 October
Minister Of Health, Papua New Guinea visited Pharmaniaga Bukit Raja to learn more about the company's logistics infrastructure

27 15-16 October
The biggest Family Day celebration ever held at Pharmaniaga, Familybration was held at Tiara Beach Resort Port Dickson, involving all staff from all branches in Peninsular and East Malaysia

28 10 December
The Surau Committee organised Majlis Korban to slaughter seven cows and distribute the meat to the asnaf of Lembaga Zakat Selangor

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Directors' Report

The Directors are pleased to present their report together with the audited financial statements of the Group and Company for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	61,409	14,641

DIVIDENDS

The dividends on ordinary shares paid and declared by the Company since the end of the last financial year were as follows:

	RM'000
In respect of the financial year ended 31 December 2007:	
- final 18% tax exempt dividend paid on 2 July 2008	19,253

The Directors have recommended the payment of a final gross dividend of 27% per share, less taxation of 25%, for the financial year ended 31 December 2008 amounting to approximately RM21,396,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 2 July 2009 to shareholders registered on the Company's Register of Members at the close of business on 9 June 2009.

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, 14,600 new ordinary shares of RM1.00 each were issued by the Company for cash consideration by virtue of the exercise of options pursuant to the Company's Employee Share Option Scheme ("ESOS"). The market price of the Company's shares at the date of the options were exercised was RM3.88 per share.

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

There were no changes in the authorised share capital of the Company during the financial year.

There were no debentures issued during the financial year.

SIGNIFICANT EVENTS

Significant events during the financial year are disclosed in Note 35 to the financial statement.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

On 4 July 2003, the Company implemented the ESOS after approvals were obtained from the relevant authorities. The ESOS is governed by the Bye-Laws which were approved by the Company's shareholders at the Extraordinary General Meeting held on 19 June 2003.

The principal features of the ESOS are as follows:

(a) Eligible employees and Executive Directors of the Company and its subsidiary companies can subscribe under the ESOS for new ordinary shares of RM1 each in the Company. The number of options granted is subject to among others, the seniority and years of service of the respective eligible employees as provided under the ESOS Bye-Laws.

(b) The ESOS has expired on 3 July 2008. Any extension of time of the ESOS 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 ESOS prior to the expiry date.

(c) The total number of shares to be offered under the ESOS 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.

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

(e) The newly issued ordinary shares shall rank pari passu with the existing ordinary shares of the Company.

As at 31 December 2008, particulars of the outstanding options granted under the ESOS were as follows:

		Number of ordinary shares of RM1.00 each				
Date of offer	**Option price RM**	**As at 1.1.2008**	**Granted**	**Exercised**	**Lapsed**	**As at 31.12.2008**
7 February 2006	4.43	701,850	–	–	(701,850)	–
1 September 2006	3.91	549,900	–	–	(549,900)	–
5 September 2007	3.56	357,100	–	(14,600)	(342,500)	–

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report the name of the persons to whom options have been granted during the year and details of their holdings. This information has been separately filed with the Companies Commission of Malaysia.

DIRECTORS

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

Dato' Mohamed Azman bin Yahya
Dato' Ahmad Pardas bin Senin
Datuk Sulaiman bin Daud
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin
Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj.Salleh
Ismael Fariz bin Ali
Oh Kim Sun
Mohamad bin Abdullah

Directors' Report (cont'd)

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, other than the options granted to certain Directors over the ordinary shares in the Company pursuant to the ESOS and the offer for sale of UEM World Berhad's ("UEM World") shares to eligible employees of UEM Group Berhad, Khazanah Nasional Berhad, and UEM World's subsidiaries and certain of its associated companies, via UEM World's Employee Equity Scheme ("EES"), which has expired on 22 October 2008.

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 Note 6 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 except as disclosed in Note 34 to the financial statements.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and options over shares in the Company and its related companies were as follows:

The Company

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2008	Bought	Sold	As at 31.12.2008
Direct interest				
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	27,000	–	–	27,000
Mohamad bin Abdullah	100	–	–	100
Deemed interest				
Dato' Mohamed Azman bin Yahya*	10,000	–	–	10,000
Oh Kim Sun**	177,000	–	–	177,000
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin***	2,000	–	–	2,000

* Through his spouse's direct shareholding in the Company.

** Through his related corporations, 80,000 shares held through Sleuths Holdings Sdn. Bhd., 57,000 shares held through Melval Holdings Sdn. Bhd. and 40,000 shares held through Goldinas Sdn. Bhd.

*** Through his brother's spouse's shareholding in the Company.

UEM World Berhad

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2008	Granted	Transferred/ Sold	As at 31.12.2008
Direct interest				
Dato' Ahmad Pardas bin Senin	5,240,000	540,000#	(5,780,000)**	–
Mohamad bin Abdullah	667,900	162,000	(829,900)	–

In respect of EES allocation under performance - based scheme.

** Included balance of 1,000,000 shares in UEM World Berhad which was exchanged for 1,250,000 ordinary shares of RM0.50 each in UEM Land Holdings Berhad arising from the distribution of the dividend-in-specie by UEM World Berhad.

DIRECTORS' INTERESTS (cont'd)

UEM Land Holdings Berhad

	Number of ordinary shares of RM0.50 each			
	As at 1.1.2008	Transferred/ Bought	Sold	As at 31.12.2008
Direct interest				
Dato' Ahmad Pardas bin Senin	–	2,500,000[@]	–	2,500,000
Mohamad bin Abdullah	–	140,000	–	140,000

[@] 1,250,000 shares issued to replace the 1,000,000 UEM World Berhad shares pursuant to the distribution of the dividend-in-specie by UEM World Berhad

Other than as disclosed above, according to the register of Directors' shareholdings, none of the other Directors in office at the end of the financial year held any interests in shares and options over ordinary shares in the Company and its related companies during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

Before the income statements and balance sheets 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 Company had been written down to an amount which they might be expected so to realise.

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 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 Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and 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 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 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 Company which has arisen since the end of the financial year.

Directors' Report (cont'd)

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 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 Company for the year in which this report is made.

HOLDING COMPANIES

The immediate and ultimate holding companies of the Company are UEM Group Berhad and Khazanah Nasional Berhad respectively, all of which are incorporated in Malaysia.

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 26 February 2009.



DATO' MOHAMED AZMAN BIN YAHYA
CHAIRMAN



MOHAMAD BIN ABDULLAH
MANAGING DIRECTOR

Statement By Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Mohamed Azman bin Yahya and Mohamad bin Abdullah, two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 138 to 191 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2008 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

Signed on behalf of the Board of Directors in accordance with a resolution dated 26 February 2009.

DATO' MOHAMED AZMAN BIN YAHYA
CHAIRMAN

MOHAMAD BIN ABDULLAH
MANAGING DIRECTOR

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Ramlan bin Abdul Rahman, 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 138 to 191 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.

RAMLAN BIN ABDUL RAHMAN
SENIOR GENERAL MANAGER

Subscribed and solemnly declared by the abovenamed Ramlan bin Abdul Rahman at Kuala Lumpur on 26 February 2009, before me.

PESURUHJAYA SUMPAH
No. W 317
M.S. NATHAN
MALAYSIA

COMMISSIONER FOR OATHS

WISMA TAN PEH
4TH FLOOR, ROOM NO. 4.07
NO. 86 JALAN MASJID INDIA
50100 KUALA LUMPUR

Independent Auditors' Report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Pharmaniaga Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 138 to 191.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

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 have been properly kept in accordance with the provisions of the Act.

(b) 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.

(c) Our audit 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.

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

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/10 (J))
Chartered Accountant

Kuala Lumpur
26 February 2009

Income Statements

for the Financial Year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Revenue	4	**1,305,646**	1,183,983	**33,080**	71,300
Cost of sales	5	**(1,073,779)**	(983,590)	**–**	–
Gross profit		**231,867**	200,393	**33,080**	71,300
Other income		**3,120**	2,348	**3,361**	4,157
Administrative expenses		**(94,190)**	(75,942)	**(16,090)**	(956)
Selling and distribution costs		**(28,338)**	(26,474)	**–**	–
Other expenses		**(16,534)**	(12,945)	**(173)**	(225)
Finance costs		**(6,267)**	(9,692)	**(5,537)**	(6,728)
Share of results from associated company		**941**	210	**–**	–
Profit before zakat and taxation	6	**90,599**	77,898	**14,641**	67,548
Zakat	8	**(1,300)**	–	**–**	–
Taxation	9	**(27,890)**	(26,180)	**–**	–
Profit for the financial year		**61,409**	51,718	**14,641**	67,548
Attributable to:					
Equity holders of the Company		**60,031**	50,080	**14,641**	67,548
Minority interest		**1,378**	1,638	**–**	–
Profit for the financial year		**61,409**	51,718	**14,641**	67,548
Earnings per share (sen):					
- basic	10	**56.12**	46.82		
Dividend per share (sen):					
- final tax exempt dividend proposed/paid	11	**–**	18		
- final gross dividend proposed, less taxation	11	**27**	-		

Balance Sheets

as at 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**257,804**	259,247	**–**	–
Prepaid lease payments	13	**3,116**	3,197	**–**	–
Investments in subsidiary companies	14	**–**	–	**184,523**	185,073
Investments in associated companies	15	**7,382**	6,441	**1,970**	1,970
Amounts due from subsidiary companies	20	**–**	–	**29,843**	44,780
Intangible assets	16	**31,355**	33,988	**–**	–
Deferred taxation	28	**3,246**	2,297	**–**	–
		302,903	305,170	**216,336**	231,823
Current assets					
Inventories	17	**162,210**	182,130	**–**	–
Trade receivables	18	**156,277**	280,411	**–**	–
Other receivables	19	**11,023**	9,434	**223**	4
Amount due from immediate holding company		**–**	18	**–**	18
Amounts due from subsidiary companies	20	**–**	–	**141,495**	106,767
Amounts due from related companies	21	**19,752**	13,698	**–**	–
Amounts due from associated companies	21	**3,091**	1,087	**–**	–
Tax recoverable		**1,607**	2,796	**–**	–
Fixed deposits	22	**58,300**	8	**–**	–
Cash and bank balances		**35,873**	56,132	**2,263**	1,043
		448,133	545,714	**143,981**	107,832
Non-current assets held for sale	23	**47,282**	33,965	**–**	–
TOTAL ASSETS		**798,318**	884,849	**360,317**	339,655

Balance Sheets (cont'd)

as at 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	26	**106,978**	106,963	**106,978**	106,963
Share premium	27	**22,447**	22,410	**22,447**	22,410
Other reserves	27	**(6,491)**	(253)	**–**	550
Retained earnings	27	**265,101**	220,551	**65,318**	69,930
Equity attributable to equity holders of the Company		**388,035**	349,671	**194,743**	199,853
Minority interest		**14,167**	12,789	**–**	–
Total equity		**402,202**	362,460	**194,743**	199,853
Non-current liabilities					
Loans and borrowings	25	**26,238**	58,486	**23,393**	58,130
Deferred taxation	28	**3,236**	3,767	**–**	–
		29,474	62,253	**23,393**	58,130
Current liabilities					
Trade payables	24	**236,673**	254,833	**–**	–
Other payables		**28,698**	31,728	**4,660**	204
Amount due to immediate holding company		**21**	–	**21**	–
Amounts due to subsidiary companies	20	**–**	–	**70,832**	18,447
Amounts due to related companies	21	**2,244**	2,561	**713**	2
Amounts due to associated companies	21	**2,112**	716	**1,468**	315
Taxation payable		**981**	3,842	**–**	–
Dividends payable		**6**	7	**6**	7
Loans and borrowings	25	**95,907**	166,449	**64,481**	62,697
		366,642	460,136	**142,181**	81,672
Total liabilities		**396,116**	522,389	**165,574**	139,802
TOTAL EQUITY AND LIABILITIES		**798,318**	884,849	**360,317**	339,655

Statements of Changes in Equity

for the Financial Year ended 31 December 2008

	Note	Equity attributable to equity holders of the Company							
		Share capital RM'000	Share premium RM'000	Exchange reserves RM'000	Other reserves RM'000	Retained earnings RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
Group									
At 1 January 2008		**106,963**	**22,410**	**(3,681)**	**3,428**	**220,551**	**349,671**	**12,789**	**362,460**
Currency translation differences, representing expenses recognised directly in equity		**–**	**–**	**(2,810)**	**–**	**–**	**(2,810)**	**–**	**(2,810)**
Profit for the financial year		**–**	**–**	**–**	**–**	**60,031**	**60,031**	**1,378**	**61,409**
Total recognised income and expense for the year		**–**	**–**	**(2,810)**	**–**	**60,031**	**57,221**	**1,378**	**58,599**
2007 final 18% tax exempt dividend paid	11	**–**	**–**	**–**	**–**	**(19,253)**	**(19,253)**	**–**	**(19,253)**
Employee share option scheme:									
- options issued		**15**	**37**	**–**	**–**	**–**	**52**	**–**	**52**
- options lapsed		**–**	**–**	**–**	**(550)**	**550**	**–**	**–**	**–**
Employee equity scheme:									
- options granted		**–**	**–**	**–**	**344**	**–**	**344**	**–**	**344**
- options lapsed		**–**	**–**	**–**	**(3,222)**	**3,222**	**–**	**–**	**–**
Balance as at 31 December 2008		**106,978**	**22,447**	**(6,491)**	**–**	**265,101**	**388,035**	**14,167**	**402,202**
At 1 January 2007		106,963	22,410	(958)	1,310	186,515	316,240	11,151	327,391
Currency translation differences, representing expenses recognised directly in equity		–	–	(2,723)	–	–	(2,723)	–	(2,723)
Profit for the financial year		–	–	–	–	50,080	50,080	1,638	51,718
Total recognised income and expense for the financial year		–	–	(2,723)	–	50,080	47,357	1,638	48,995
2006 final 15% tax exempt dividend paid	11	–	–	–	–	(16,044)	(16,044)	–	(16,044)
Employee equity scheme:									
- options granted		–	–	–	2,118	–	2,118	–	2,118
Balance as at 31 December 2007		106,963	22,410	(3,681)	3,428	220,551	349,671	12,789	362,460

Statements of Changes in Equity (cont'd)

for the Financial Year ended 31 December 2008

	Note	Non-distributable			Distributable	
		Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	Total RM'000
Company						
At 1 January 2008		**106,963**	**22,410**	**550**	**69,930**	**199,853**
Profit for the financial year		**–**	**–**	**–**	**14,641**	**14,641**
Employee share option scheme:						
- shares issued		**15**	**37**	**–**	**–**	**52**
- option lapsed		**–**	**–**	**(550)**	**–**	**(550)**
Dividends for financial year ended:						
- 2007 final 18% tax exempt dividend	11	**–**	**–**	**–**	**(19,253)**	**(19,253)**
At 31 December 2008		**106,978**	**22,447**	**–**	**65,318**	**194,743**
At 1 January 2007		106,963	22,410	1,310	18,426	149,109
Profit for the financial year		–	–	–	67,548	67,548
Employee share option scheme:						
- option lapsed		–	–	(50)	–	(50)
Employee equity scheme:						
- reclassification		–	–	(710)	–	(710)
Dividends for financial year ended:						
- 2006 final 15% tax exempt dividend	11	–	–	–	(16,044)	(16,044)
At 31 December 2007		106,963	22,410	550	69,930	199,853

Cash Flow Statements

for the Financial Year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
CASH FLOW OPERATING ACTIVITIES					
Cash receipts from customers		**1,397,835**	1,123,608	**–**	–
Cash payments to suppliers		**(1,034,445)**	(926,083)	**–**	–
Cash payments to employees and for expenses		**(157,896)**	(105,087)	**(9,951)**	(7,952)
Cash receipts from related companies		**12,772**	–	**–**	–
Advances from subsidiary companies		**–**	–	**48,209**	52,683
Cash from operations		**218,266**	92,438	**38,258**	44,731
Interest paid		**(3,956)**	(6,135)	**–**	–
Profit on Murabahah Commercial Paper paid		**(1,212)**	(1,178)	**(1,212)**	(1,178)
Tax paid		**(32,190)**	(20,367)	**–**	–
Tax refund		**1,148**	–	**–**	–
Interest received		**32**	120	**–**	–
Net cash flows generated from operating activities		**182,088**	64,878	**37,046**	43,553
CASH FLOW INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment		**389**	232	**–**	–
Purchase of property, plant and equipment		**(21,349)**	(26,936)	**–**	–
Deposit received from disposal of non-current asset held for sale		**350**	–	**–**	–
Dividend received		**–**	–	**20,700**	–
Net cash flows (used in)/generated from investing activities		**(20,610)**	(26,704)	**20,700**	–

Cash Flow Statements (cont'd)

for the Financial Year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of shares - exercise of share options		**52**	–	**52**	–
Dividends paid		**(19,253)**	(16,037)	**(19,253)**	(16,037)
Redemption of Murabahah CP/MTN		**(15,000)**	(25,000)	**(15,000)**	(25,000)
(Repayments)/Drawdown of short term borrowings		**(67,959)**	11,497	**–**	–
Repayments of term loan		**(18,000)**	(16,200)	**(18,000)**	(16,200)
Term loan interest paid		**(2,183)**	(3,120)	**(2,183)**	(3,120)
Profit on Murabahah Medium Term Notes paid		**(2,142)**	(2,430)	**(2,142)**	(2,430)
Fixed deposits released		**8**	1,153	**–**	–
Net cash flows used in financing activities		**(124,477)**	(50,137)	**(56,526)**	(62,787)
CHANGE IN CASH AND CASH EQUIVALENTS		**37,001**	(11,963)	**1,220**	(19,234)
Foreign exchange differences		**1,040**	(478)	**–**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**56,132**	68,573	**1,043**	20,277
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		**94,173**	56,132	**2,263**	1,043
Cash and cash equivalents comprise:					
Fixed deposits		**58,300**	8	**–**	–
Cash and bank balances		**35,873**	56,132	**2,263**	1,043
		94,173	56,140	**2,263**	1,043
Less: Fixed deposits pledged to banks	22	**–**	(8)	**–**	–
Cash and cash equivalents		**94,173**	56,132	**2,263**	1,043

Notes to the Financial Statements

31 December 2008

1 GENERAL INFORMATION

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

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

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

Registered office:

19-2 Mercu UEM
Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Principal place of business:

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

The immediate and ultimate holding companies of the Company are UEM Group Berhad and Khazanah Nasional Berhad respectively, all of which are incorporated in Malaysia.

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

Unless otherwise stated, the following accounting policies have been used 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Group and Company have been prepared under the historical cost convention unless otherwise indicated in the individual policy statements in Note 3 to the financial statements.

The financial statements have been prepared in accordance with the provisions of the Companies Act 1965 and Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

Standards, amendments to published standards and interpretations that are applicable to the Group and are effective

(i) The revised MASB approved accounting standards effective 1 January 2008 in these financial statements are as follows:

FRS 107 - Cash Flows Statements
FRS 111 - Construction Contract
FRS 112 - Income Taxes
FRS 118 - Revenue
FRS 120 - Accounting for Government Grants and Disclosure of Government Assistance
FRS 121 - Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net investment in a Foreign Operations
FRS 134 - Interim Financial Reporting
FRS 137 - Provisions, Contingent Liabilities and Contingent Assets
IC1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC2 - Member's Shares in Co-operation Entities and Similar Instruments
IC5 - Rights to Interests Arising from Decommisioning, Restoration and Environmental Rehabilitation Funds
IC6 - Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC7 - Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies
IC8 - Scope of FRS 2

The adoption of the above standards and interpretations, did not have a significant financial impact on the Group and Company's and did not result in substantial changes in the Group's and Company's policies. The principal effects of the changes in accounting policies resulting from the adoption of the new and revised FRS 112 is discussed below:

(a) FRS 112 Income Taxes. This revised standard has removed the requirements that prohibit recognition of deferred tax on reinvestment allowances or other allowances in excess of capital allowances. This standard will affect the recognition of deferred tax assets.

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group but not yet effective and have not been early adopted.

(a) FRS 139 Financial Instruments: Recognition and Measurement. The effective date for FRS 139 Financial Instruments: Recognition and Measurement has now been determined by the MASB to be from 1 January 2010. However, entities are exempted from disclosing the impact of FRS 139 in accordance with FRS 108 "Accounting Policies, Change in Accounting Estimates and Errors" prior to its effective date. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group and Company will apply this standard when effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group but not yet effective and have not been early adopted. (cont'd)

(b) IC Interpretation 9 Reassessment of Embedded Derivatives (effective for annual period beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply this standard from financial periods beginning on 1 January 2010.

(c) The following standards will be effective for annual period beginning on or after 1 January 2010. The Group will apply these standards from financial periods beginning on 1 January 2010. The Group has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standard on the financial statements of the Group and Company:

- FRS 4 Insurance Contracts
- FRS 7 Financial Instruments: Disclosures

(iii) Standards, amendments to standards and interpretations to existing standards that are not relevant and will not have a significant impact for the Group and Company's operations.

(a) FRS 8 Operating Segments

(b) FRS 134 Interim Financial Reporting

(c) IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

(d) IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments

(e) IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(f) IC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

(g) IC Interpretation 7 Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies

(h) IC Interpretation 8 Scope of FRS 2 clarifies that FRS 2 Share-based Payment

(i) IC Interpretation 10 Interim Financial Reporting and Impairment

The preparation of financial statements in conformity with the provisions of the Companies Act 1965 and Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

(iii) Standards, amendments to standards and interpretations to existing standards that are not relevant and will not have a significant impact for the Group and Company's operations. (cont'd)

The preparation of the above financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Basis of consolidation

(i) Subsidiary companies

Subsidiary companies are all entities (including special purpose entities) in which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiary companies are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year.

The purchase method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in the income statement.

Minority interest represents that portion of the profit or loss and net assets of a subsidiary company attributable to equity interests that are not owned, directly or indirectly through subsidiary companies, by the parent. It is measured at the minorities' share of the fair value of the subsidiary companies' identifiable assets and liabilities at the acquisition date and minorities' share of changes in the subsidiary companies' equity since that date.

Intragroup 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 asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary company is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Basis of consolidation (cont'd)

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

Purchases of equity from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company.

(iii) Associated companies

Associated companies are all entities in which the Group has significant influence, but which it does not 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 associated companies but not the power to exercise control over those policies. Investments in associated companies are accounted for using the equity method accounting and are initially recognised at cost. The Group's investment in associated company includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group's interest is reduced to nil and does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the economic entities of the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associated company to ensure consistency of accounting policies with those of the Group.

(c) 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 consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Foreign currencies (cont'd)

(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 or 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 the income statement.

The principal exchange rates used for every unit of foreign currency ruling at balance sheet date are as follows:

	2008 RM	2007 RM
US Dollar	**3.46**	3.31
Euro	**4.88**	4.88
Singapore Dollar	**2.41**	2.29
Indonesian Rupiah	**0.03**	0.04
Sterling Pound	**5.00**	6.60
Australian Dollar	**2.40**	2.92
Chinese Renminbi	**0.51**	0.45

(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 of the Company are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount 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. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Freehold land is not depreciated as it has an infinite life. All other property, plant and equipment are depreciated on the straight line method to write off the cost of the assets to their residual values over their estimated useful lives.

The principal annual depreciation rates used are as follows:

Freehold buildings	2%
Leasehold buildings	2% - 5%
Motor vehicles	14% - 50%
Plant & machinery	10%
Furniture & fittings	6% - 20%
Renovation	5% - 20%
Equipment	7% - 20%

Depreciation on assets under construction commences when the assets are ready for their intended use. Incidental cost for the purchase of land and building has been capitalised as part of the cost of assets up to the date when the property is ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, 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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See accounting policy Note 2(i) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(e) Prepaid lease payments

Payment for rights to use land over a predetermined period is classified as prepaid lease payments and is stated at cost less amount amortised and accumulated impairment losses.

The prepaid lease payments are amortised on a straight-line basis over the lease period, which is similar to the depreciation policy when they were classified as property, plant and equipment.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Investments

Investments in subsidiary and associated companies are shown at cost. 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(i) on impairment of assets.

Investments in other non-current investments are shown at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/credited to the income statement.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiary and associated companies over the fair value of the Group's share of the identifiable net assets at the date of acquisition. Goodwill on acquisitions of subsidiary companies is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocations are made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Group allocates goodwill to each business in each segment in which it operates. See accounting policy Note 2(i) on impairment of assets.

(ii) Project development expenditure

All expenses relating to the development of the pharmaceutical business under concession is capitalised and amortised over the concession period of 15 years, which is the number of years that the benefit is expected to be derived out of the project, unless the Directors consider that a continuing benefit will not accrue.

Where an indication of impairment exists, the carrying amount of the project development expenditure is assessed and written down immediately to their recoverable amount. See accounting policy Note 2(i) on impairment of assets.

(iii) Brand

Brand represents the brand name of a product line acquired by the Group during the financial year. Brand has an indefinite useful life. Brand is tested annually for impairment and carried out at cost less accumulated impairment losses. See accounting policy Note 2(i) on impairment of assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Research and development

Research expenditure is recognised as an expense when incurred. Cost incurred on development projects are recognised as development assets to the extent that such expenditure is expected to generate future economic benefits and only if the cost can be measured reliably.

Development costs initially recognised as an expense are not recognised as an asset in the subsequent years. Capitalised development costs are amortised on a systematic basis over their expected useful lives.

The carrying amount of development cost is reviewed annually and written down immediately to their recoverable amount where an indication of impairment exists. See accounting policy Note 2(i) on impairment of assets.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever the 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash generating units).

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case, it is charged to the revaluation surplus.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. However, an impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of finished goods are determined using the weighted average method whilst costs of work-in-progress and raw materials are determined using the first-in, first-out (FIFO) 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 applicable variable selling expenses. In arriving the net realisable value, due allowances have been made by Directors for all damages, obsolete and slow moving items.

(k) Receivables

Receivables are carried at anticipated realisable value, less an allowance for doubtful debts. The allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of allowance is the difference between the carrying amount and the recoverable amount and is recognised in the income statement.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, bank overdrafts, short-term demand deposits and highly liquid investments, which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date.

(n) Borrowings

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowing costs attributable to the acquisition, construction and production of an asset during the periods when activities necessary to prepare the asset for its intended use are in progress, are capitalised as a component of the cost of the asset. Such capitalisation ceases when substantially all activities necessary to prepare the asset for their intended use are completed. All other borrowing costs are expensed.

When the carrying amount of an asset exceeds its recoverable amount, inclusive of capitalised borrowing costs, if applicable, such excess is written down or adjusted for as allowance for impairment, through an appropriate charge to the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Payables

Payables are stated at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

(p) Employee benefits

(i) Short term 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Employee benefits (cont'd)

(ii) Defined contribution plans

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 employees benefits relating to employee service in the current and prior years. The defined contribution plan of the Group relates to the contribution to the Employee Provident Fund, the national defined contribution plan.

The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

The Employee Share Option Scheme ("ESOS") and Employee Equity Scheme ("EES") allow the Group's employees to acquire ordinary shares of the Company and of the immediate holding company respectively.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any nonmarket vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) Provisions for liabilities

Provisions for liabilities 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 embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment.

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 the obligation 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.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably and after eliminated sales within the Group.

(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) exceeds 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.

(iii) Interest income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

(iv) Dividend income

Dividend income from subsidiary companies 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 subsidiary companies are recognised when they are declared and final dividends when they are approved by shareholders in general meeting.

(s) Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by a foreign subsidiary company and associated company on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Income taxes (cont'd)

Deferred tax is recognised on temporary differences arising on investments in subsidiary companies and associated companies except where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

(t) Financial instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

(iii) Financial instruments not recognised on the balance sheet

The Group is a party to financial instruments that comprise foreign currency forward contracts. This instrument is not recognised in the financial statements on inception.

The Group enters into foreign currency forward contracts to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses on foreign currency forward contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

(iv) Fair value estimation for disclosure purposes

The face value of financial liabilities with maturity of more than one year is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The face values of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of forward foreign exchange contracts is determined using forwardexchange market rates at the balance sheet date.

Notes to the Financial Statements (cont'd)

31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those components operating in other economic environments.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

(v) Zakat

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised as and when the Group has a current 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 balance sheet date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for 2008 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.

(w) Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations

Non-current assets or disposal groups are classified as held for sale if their carrying amounts will be recovered principally through sale transaction rather than through continuing use. The condition is regarded as met only when the assets or disposal groups are available for immediate sale in its present condition subject to terms that are usual and customary and the sale is highly probable.

Non-current assets or disposal groups held for sale are measured at the lower carrying amount and fair value less costs to sell.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(x) Government grants

Grants from the 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 deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

3 CRITICAL ACCOUNTING ESTIMATES

Estimates 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. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. 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 outlined below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amount of cash-generating unit has been determined based on value-in-used calculations. These calculations require use of estimates as set out in Note 16.

For the purposes of the value-in-use calculations in respect of RM12.65 million of the goodwill, the Group has taken into account the potential economic benefits of contracts to be awarded by the Government. The Group is still negotiating for some of these contracts.

The goodwill referred to has been allocated to the cash generating unit relating to medical products and services. The Board of Directors believe that it is reasonable to assume that the Company will be successful in being awarded some of these contracts.

4 REVENUE

	Group		Company	
	2008 RM'000	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**
Revenue consists of:				
Sale of goods	**1,279,489**	1,181,681	**–**	–
Contracts	**26,157**	2,302	**–**	–
Management fees	**–**	–	**12,380**	–
Dividend income	**–**	–	**20,700**	71,300
	1,305,646	1,183,983	**33,080**	71,300

5 COST OF SALES

	Group	
	2008 RM'000	**2007 RM'000**
Cost of sales consists of:		
Cost of inventories sold	**1,050,993**	981,417
Contracts costs	**22,786**	2,173
	1,073,779	983,590

Notes to the Financial Statements (cont'd)

31 December 2008

6 PROFIT BEFORE ZAKAT AND TAXATION

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before zakat and taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
- statutory				
- current	**229**	241	**40**	37
- under provision in prior year	**65**	4	**20**	–
- others	**294**	34	**–**	–
Amortisation of project development expenditure	**633**	633	**–**	–
Property, plant and equipment				
- depreciation	**14,766**	16,827	**–**	–
- written-off	**466**	105	**–**	–
Amortisation of prepaid lease payments	**81**	129	**–**	–
Gain on disposal of property, plant and equipment	**(533)**	(225)	**–**	–
Directors' remuneration				
- fees payable to directors	**393**	320	**321**	320
- fees payable to holding company	**36**	36	**36**	36
- salaries, bonuses and other emoluments	**1,120**	938	**1,120**	113
Finance cost				
- interest expense on term loan	**4,038**	5,005	**2,183**	3,120
- interest expense on bankers' acceptance	**1,666**	2,921	**–**	–
- profit on Murabahah Commercial Paper	**–**	1,178	**1,212**	1,178
- profit on Murabahah Medium Term Notes	**–**	–	**2,142**	2,430
- others	**563**	588	**–**	–
Interest income	**(795)**	(681)	**(3,354)**	(3,608)
Allowance for doubtful debts	**2,886**	1,234	**173**	23
Write back of allowance for doubtful debts	**(2,268)**	(886)	**–**	–
Bad debts written off	**–**	–	–	202
Allowance for slow moving and obsolete inventories	**5,390**	1,983	**–**	–
Inventories written off	**3,610**	1,781	**–**	–
Write back of allowance for slow moving and obsolete inventories	**(286)**	–	**–**	–
Rental of premises	**1,724**	1,836	**6**	–
Rental of equipment	**488**	481	**104**	–
Research and development expenses	**1,488**	1,013	**–**	–
Government grant	**(800)**	–	**–**	–
Loss/(gain) on foreign currency exchange	**2**	49	**(7)**	–
Rental income	**(12)**	(73)	**–**	–
Impairment of intangible asset	**1,000**	–	**–**	–
Impairment of goodwill	**1,000**	–	**–**	–
Impairment of non-current assets held for sales	**1,034**	–	**–**	–
Employee benefit expense (Note 7)	**62,971**	57,651	**8,649**	–

The estimated monetary value of benefits provided to Directors of the Company during the financial year amounted to RM15,000 (2007: RM15,000).

7 EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Salaries and bonus	**44,956**	40,327	**5,480**	–
Defined contribution plan	**4,854**	5,421	**791**	–
Short term employee benefits	**12,817**	9,675	**2,378**	–
Equity compensation benefits (Note 26)	**344**	2,228	**–**	–
	62,971	57,651	**8,649**	–

The number of employees of the Group and Company at the end of the financial year was 1,954 and 86 (2007: 1,915 and Nil) persons respectively.

8 ZAKAT

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At beginning of financial year	**–**	–	**–**	–
Zakat expense based on the results for the current financial year	**1,300**	–	**–**	–
Zakat paid	**(1,300)**	–	**–**	–
At end of financial year	**–**	–	**–**	–

9 TAXATION

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Current tax:				
- Malaysian income tax	**28,070**	24,327	**–**	–
- foreign income tax	**1,969**	1,763	**–**	–
- (over)/under provision in prior years	**(669)**	180	**–**	–
Deferred taxation (Note 28)				
- reversal of net temporary differences	**(1,480)**	(90)	**–**	–
	27,890	26,180	**–**	–

The provision for current year's taxation for the Group is made by applying the statutory tax rate on the respective companies' chargeable income.

The estimated tax exempt account balance and Section 108 account balance of the Company at the balance sheet amounted to approximately RM1,666,200 (2007: RM20,919,574) and RM22,267,485 (2007: RM22,267,485) respectively. These accounts may be used to frank the payment of tax exempt dividend of RM1,666,200 and taxable dividends of RM66,802,455 out of its retained profits, subject to the agreement of the Inland Revenue Board.

Notes to the Financial Statements (cont'd)

31 December 2008

9 TAXATION (cont'd)

The reconciliation between the statutory and effective tax expenses is as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before zakat and taxation	**90,599**	77,898	**14,641**	67,548
Income tax at rate of 26% (2007: 27%)	**23,556**	21,032	**3,807**	18,238
Tax effect in respect of:				
Non-allowable expenses	**8,928**	6,818	**430**	129
Income not subject to tax	**(4,247)**	(1,281)	**(4,237)**	(18,367)
Effect of different tax rate	**366**	644	**–**	–
Utilisation of current year's reinvestment allowances	**(44)**	(1,213)	**–**	–
(Over)/under provision of income tax in prior years	**(669)**	180	**–**	–
	27,890	26,180	**–**	–

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders of RM60,031,000 (2007: RM50,080,000) and the weighted average number of ordinary shares in issue during the year of 106,971,000 (2007: 106,963,000).

	Group	
	2008	2007
Net profit attributable to shareholders (RM'000)	**60,031**	50,080
Weighted average number of ordinary shares in issue ('000)	**106,971**	106,963
Basic earnings per share (sen)	**56.12**	46.82

(b) Diluted earnings per share

The adjustment for weighted average number of ordinary shares to arrive at the diluted earnings per share were not calculated as the market share prices of RM3.52 per share (2007: RM3.22 per share) at the current and previous financial year end closing respectively were below the exercisable prices offered.

11 DIVIDENDS

During the financial year, dividends declared, paid and proposed in respect of ordinary shares for the financial year are as follows:

	Group and Company			
	2008		2007	
	Per share sen	Amount of dividend RM'000	Per share sen	Amount of dividend RM'000
Final tax exempt dividend proposed/paid	–	–	18	19,253
Final gross dividend proposed, less taxation of 25%	**27**	**21,396**	–	–

At the forthcoming Annual General Meeting, a final gross dividend of 27 sen per share, less taxation of 25% in respect of the financial year ended 31 December 2008 (2007: 18 sen tax exempt) per share amounting to approximately RM21,396,000 (2007: RM19,253,000) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect the proposed final dividend. This will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2009.

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 2008						
Cost	**199,762**	**58,828**	**6,181**	**93,577**	**3,841**	**362,189**
Accumulated depreciation	**(32,854)**	**(34,643)**	**(5,005)**	**(31,883)**	**–**	**(104,385)**
Net book value	**166,908**	**24,185**	**1,176**	**61,694**	**3,841**	**257,804**
At 31 December 2007						
Cost	205,821	62,015	7,436	89,558	1,114	365,944
Accumulated depreciation	(29,257)	(36,107)	(6,359)	(34,974)	–	(106,697)
Net book value	176,564	25,908	1,077	54,584	1,114	259,247

Notes to the Financial Statements (cont'd)

31 December 2008

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	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 2008	**176,564**	**25,908**	**1,077**	**54,584**	**1,114**	**259,247**
Additions	**9,170**	**4,520**	**691**	**11,550**	**2,727**	**28,658**
Disposals	**–**	**–**	**(32)**	**–**	**–**	**(32)**
Written off	**–**	**(466)**	**–**	**–**	**–**	**(466)**
Depreciation charged	**(4,067)**	**(5,701)**	**(561)**	**(4,437)**	**–**	**(14,766)**
Transfer to non-current assets held for sale (Note 23)	**(14,593)**	**–**	**–**	**–**	**–**	**(14,593)**
Foreign exchange adjustment	**(166)**	**(76)**	**1**	**(3)**	**–**	**(244)**
At 31 December 2008	**166,908**	**24,185**	**1,176**	**61,694**	**3,841**	**257,804**
Movements in net book value						
At 1 January 2007	149,088	28,482	1,361	41,650	50,206	270,787
Additions	5,379	6,798	254	25,474	53	37,958
Disposals	–	(117)	(1)	1	–	(117)
Written off	(54)	(42)	–	(9)	–	(105)
Depreciation charged	(4,992)	(6,196)	(457)	(5,182)	–	(16,827)
Reclassification	46,920	–	–	(32)	(46,888)	–
Transfer to non-current assets held for sale (Note 23)	(19,568)	(2,986)	(49)	(7,314)	(2,257)	(32,174)
Foreign exchange adjustment	(209)	(31)	(31)	(4)	–	(275)
At 31 December 2007	176,564	25,908	1,077	54,584	1,114	259,247

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land RM'000	Freehold buildings RM'000	Buildings on long leasehold lands RM'000	Buildings on short leasehold lands RM'000	Total RM'000
Group					
Analysis of land and buildings:					
At 31 December 2008					
Cost	**25,190**	**109,816**	**61,144**	**3,612**	**199,762**
Accumulated depreciation	**–**	**(9,801)**	**(22,472)**	**(581)**	**(32,854)**
Net book value	**25,190**	**100,015**	**38,672**	**3,031**	**166,908**
At 31 December 2007					
Cost	39,887	103,174	57,766	4,994	205,821
Accumulated depreciation	–	(9,321)	(19,223)	(713)	(29,257)
Net book value	39,887	93,853	38,543	4,281	176,564
Movements in net book value					
At 1 January 2008	**39,887**	**93,853**	**38,543**	**4,281**	**176,564**
Additions	**–**	**5,360**	**3,810**	**–**	**9,170**
Depreciation charged	**–**	**(1,356)**	**(2,632)**	**(79)**	**(4,067)**
Reclassification	**–**	**2,217**	**(1,046)**	**(1,171)**	**–**
Transfer to non-current assets held for sale (Note 23)	**(14,593)**	**–**	**–**	**–**	**(14,593)**
Foreign exchange adjustment	**(104)**	**(59)**	**(3)**	**–**	**(166)**
At 31 December 2008	**25,190**	**100,015**	**38,672**	**3,031**	**166,908**
Movements in net book value					
At 1 January 2007	40,004	43,464	61,454	4,166	149,088
Additions	–	4,906	473	–	5,379
Depreciation charged	–	(1,358)	(3,091)	(543)	(4,992)
Written off	–	–	(54)	–	(54)
Reclassification	–	46,923	(661)	658	46,920
Transfer to non-current assets held for sale	–	–	(19,568)	–	(19,568)
Foreign exchange adjustment	(117)	(82)	(10)	–	(209)
At 31 December 2007	39,887	93,853	38,543	4,281	176,564

Notes to the Financial Statements (cont'd)

31 December 2008

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Furniture and fittings RM'000	Renovation RM'000	Equipment RM'000	Total RM'000
Analysis of furniture, fittings, renovation and equipment:				
At 31 December 2008				
Cost	**18,371**	**12,509**	**27,948**	**58,828**
Accumulated depreciation	**(12,957)**	**(9,730)**	**(11,956)**	**(34,643)**
Net book value	**5,414**	**2,779**	**15,992**	**24,185**
At 31 December 2007				
Cost	18,565	12,213	31,237	62,015
Accumulated depreciation	(13,086)	(9,240)	(13,781)	(36,107)
Net book value	5,479	2,973	17,456	25,908
Movements in net book value				
At 1 January 2008	**5,479**	**2,973**	**17,456**	**25,908**
Additions	**308**	**1,232**	**2,980**	**4,520**
Written off	**(4)**	**(400)**	**(62)**	**(466)**
Depreciation charged	**(369)**	**(1,026)**	**(4,306)**	**(5,701)**
Foreign exchange adjustment	**–**	**–**	**(76)**	**(76)**
As at 31 December 2008	**5,414**	**2,779**	**15,992**	**24,185**
At 1 January 2007	7,244	3,901	17,337	28,482
Additions	650	743	5,405	6,798
Disposals	–	(2)	(115)	(117)
Written off	(1)	–	(41)	(42)
Depreciation charged	(490)	(815)	(4,891)	(6,196)
Transfer to non-current assets held for sale	(1,924)	(854)	(208)	(2,986)
Foreign exchange adjustment	–	–	(31)	(31)
As at 31 December 2007	5,479	2,973	17,456	25,908

Certain property, plant and equipment of a subsidiary company with net book value totalling RM1,433,200 (2007: RM1,121,140) have been pledged as collateral for borrowings as explained in Note 25.

Borrowing costs of RM3,354,194 (2007: RM1,589,245), incurred specifically for the construction of the Small Volume Injectable plant and purchases of related equipment were capitalised during the financial year.

13 PREPAID LEASE PAYMENTS

	Long term RM'000	Short term RM'000	Total RM'000
Group			
At 31 December 2008			
Cost	**2,128**	**1,689**	**3,817**
Accumulated amortisation	**(342)**	**(359)**	**(701)**
Net book value	**1,786**	**1,330**	**3,116**
At 31 December 2007			
Cost	2,128	1,689	3,817
Accumulated amortisation	(311)	(309)	(620)
Net book value	1,817	1,380	3,197
Movements in net book value			
At 1 January 2008	**1,817**	**1,380**	**3,197**
Amortisation charged for the year	**(31)**	**(50)**	**(81)**
At 31 December 2008	**1,786**	**1,330**	**3,116**
At 1 January 2007	3,685	1,432	5,117
Amortisation charged for the year	(77)	(52)	(129)
Transfer to non-current assets held for sale (Note 23)	(1,791)	–	(1,791)
At 31 December 2007	1,817	1,380	3,197

14 INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2008 RM'000	2007 RM'000
Unquoted shares, at cost	**184,523**	185,073

Details of the subsidiary companies are as follows:

Name of company	Country of incorporation	Effective Equity Interest 2008 %	Effective Equity Interest 2007 %	Principal activities
Subsidiary companies of the company				
Pharmaniaga Manufacturing Berhad	Malaysia	**100**	100	Manufacture and sale of pharmaceutical products
Pharmaniaga LifeScience Sdn. Bhd.	Malaysia	**100**	100	Manufacture and sale of pharmaceutical products

Notes to the Financial Statements (cont'd)

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14 INVESTMENTS IN SUBSIDIARY COMPANIES (cont'd)

Details of the subsidiary companies are as follows: (cont'd)

Name of company	Country of incorporation	Effective Equity Interest 2008 %	Effective Equity Interest 2007 %	Principal activities
Subsidiary companies of the company (cont'd)				
Pharmaniaga Logistics Sdn. Bhd.	Malaysia	**100**	100	Purchase, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions
Pharmaniaga Marketing Sdn. Bhd.	Malaysia	**100**	100	Trading and marketing of pharmaceutical and medical products
Pharmaniaga Research Centre Sdn. Bhd.	Malaysia	**100**	100	Conduct research and development of pharmaceutical products
Pharmaniaga Diagnostics Sdn. Bhd.	Malaysia	**–**	100	Dissolved
Insurgress Sdn. Bhd.	Malaysia	**100**	100	Dormant
Safire Pharmaceuticals (M) Sdn. Bhd.	Malaysia	**100**	100	Manufacture and sale of pharmaceutical products
Pharmaniaga International Corporation Sdn. Bhd.	Malaysia	**100**	100	Trading and marketing of pharmaceuticals and medical products for overseas market
Pharmaniaga Pegasus (Seychelles) Co. Ltd.*	Republic of Seychelles	**100**	100	Investment holding
Pharmaniaga Biovention Sdn. Bhd.	Malaysia	**100**	–	Conduct biotechnology and pharmaceutical research activities, research and development centre for biotechnology pharmaceuticals products
Subsidiary company of Pharmaniaga Manufacturing Berhad				
Pharmaniaga Trading (M) Sdn. Bhd.	Malaysia	**100**	100	In Members' Voluntary Liquidation
Subsidiary companies of Pharmaniaga Logistics Sdn. Bhd.				
Pharmaniaga Medisystem Sdn. Bhd.	Malaysia	**–**	100	Dissolved
Pharmaniaga Biomedical Sdn. Bhd.	Malaysia	**100**	100	Supply, trading and installation of medical and hospital equipment

14 INVESTMENTS IN SUBSIDIARY COMPANIES (cont'd)

Details of the subsidiary companies are as follows: (cont'd)

Name of company	Country of incorporation	Effective Equity Interest 2008 %	Effective Equity Interest 2007 %	Principal activities
Subsidiary company of Pharmaniaga International Corporation Sdn. Bhd.				
PT Millennium Pharmacon International Tbk *	Indonesia	**55**	55	Distribution and trading of pharmaceutical products, food supplements and diagnostic products in Indonesia

* The financial statements of these companies are audited by firms other than the auditors of the Company.

Certain investment in subsidiary companies have been pledged as collateral for borrowings as explained in Note 25.

On 2 July 2008, the Group paid RM2 in cash to fully subscribe the entire equity in Pharmaniaga Biovention Sdn. Bhd. a company incorporated in Malaysia. As at 31 December 2008, the company has yet to commence operations.

15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Unquoted shares, at cost	**28,079**	26,268	**4,580**	4,630
Group's share of post acquisition profits	**941**	1,861	**–**	–
Share options granted lapsed	**–**	(50)	**–**	(50)
	29,020	28,079	**4,580**	4,580
Less: Accumulated impairment losses	**(21,638)**	(21,638)	**(2,610)**	(2,610)
	7,382	6,441	**1,970**	1,970

The Group's share of revenue, profit, assets and liabilities of associated companies are as follows:

	Group	
	2008 RM'000	2007 RM'000
Results		
Revenue	**11,957**	8,922
Profit after tax	**941**	210
Assets and liabilities		
Non-current assets	**7,245**	7,245
Current assets	**3,850**	4,787
Current liabilities	**(3,713)**	(5,591)
Net assets	**7,382**	6,441

Notes to the Financial Statements (cont'd)

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15 INVESTMENTS IN ASSOCIATED COMPANIES (cont'd)

The Group's share of losses of associated companies that have not been recognised amounted to RM668,000 (2007:RM750,000) for the current financial year and RM4,818,000 (2007:RM4,150,000) cumulatively as at 31 December 2008 as they have exceeded the Group's cost of investments and advances and thus the Group has no further financial obligation beyond these exposures.

Details of these associated companies are as follows:

Name of company	Country of incorporation	Effective Equity Interest 2008 %	Effective Equity Interest 2007 %	Principal activities
Associated companies of the Company				
Pharmacare Asia Holdings (Cayman) Limited Island	Cayman	**49**	49	Investment holding
Amcare Labs Malaysia Sdn. Bhd.	Malaysia	**40**	40	Provision of specialised clinical laboratory testing and other laboratory-related services
Forte Tech Solutions Sdn. Bhd.	Malaysia	**30**	30	Provision of information technology solutions and systems support services
Associated company of Pharmaniaga Logistics Sdn. Bhd.				
Rumpun Lagenda Sdn. Bhd.	Malaysia	**–**	50	Dissolved
Associated company of Pharmaniaga Pegasus (Seychelles) Co. Ltd.				
Wuxi Worldbest Treeful Pharma Pharmaceutical Co. Ltd.	People's Republic of China	**40**	40	In bankruptcy proceedings

16 INTANGIBLE ASSETS

	Goodwill RM'000	Project development expenditure RM'000	Brand RM'000	Total RM'000
Group				
Cost				
At 1 January/31 December 2008	**39,248**	**9,371**	**1,000**	**49,619**
At 1 January/31 December 2007	39,248	9,371	1,000	49,619
Accumulated amortisation/impairment				
At 1 January 2008	**7,628**	**8,003**	**–**	**15,631**
Amortisation charged for the year	**–**	**633**	**–**	**633**
Impairment	**1,000**	**–**	**1,000**	**2,000**
At 31 December 2008	**8,628**	**8,636**	**1,000**	**18,264**
At 1 January 2007	7,628	7,370	–	14,998
Amortisation charged for the year	–	633	–	633
At 31 December 2007	7,628	8,003	–	15,631
Carrying amount				
At 31 December 2008	**30,620**	**735**	**–**	**31,355**
At 31 December 2007	31,620	1,368	1,000	33,988

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2008			2007		
	Pharmaceutical trading, marketing and distribution RM'000	Medical products and services RM'000	Total RM'000	Pharmaceutical trading, marketing and distribution RM'000	Medical products and services RM'000	Total RM'000
Malaysia	**15,901**	**11,653**	**27,554**	15,901	12,653	28,554
Indonesia	**3,066**	**–**	**3,066**	3,066	–	3,066
	18,967	**11,653**	**30,620**	18,967	12,653	31,620

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Directors covering a five-year period and applying a terminal value multiple using longer-term sustainable growth rates stated below. The growth rate does not exceed the long-term average growth rate for the pharmaceutical business in which the CGU operates.

Notes to the Financial Statements (cont'd)

31 December 2008

16 INTANGIBLE ASSETS (cont'd)

Impairment tests for goodwill (cont'd)

The Directors had conducted a test on the goodwill of its medical products and services segment and after taking into consideration the potential economic profits from the future projects expected to be awarded, an impairment of RM1.0 million had been provided.

Key assumptions used for value-in-use calculations:

	2008		2007	
	Pharmaceutical trading, marketing and distribution %	**Medical products and services %**	**Pharmaceutical trading, marketing and distribution %**	**Medical products and services %**
Gross margin[1]	**12.0**	**24.0**	13.3	12.7
Growth rate[2]	**10.0**	**11.0**	10.0	10.0
Discount rate[3]	**5.5**	**5.5**	6.8	6.8

[1] Budgeted gross margin
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period
[3] Pre-tax discount rate applied to the cash flow projections

The assumptions have been used for the analysis of each CGU within the business segment. The Directors have determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Project development expenditure

The project development expenditure is amortised over the concession period of 15 years as the expected related economic benefits of the cost are expected to accrue during that period.

Brand

On 2 October 2007, Pharmaniaga Marketing Sdn. Bhd., a wholly owned subsidiary of the Company purchased the total rights and ownership of the brand name and intellectual properties, marketing and formulation of a range of natural skincare and bodycare products under the trademark "Botanique" for a total cash consideration of RM1,000,000. In the current financial year, the Directors had conducted a review of the recoverability of the brand and taking into consideration the lesser than expected sale performance of the products, the carrying value of the brand had been fully impaired.

17 INVENTORIES

	Group	
	2008 RM'000	2007 RM'000
Raw materials	**13,295**	9,678
Packaging materials	**3,051**	2,216
Work-in-progress	**1,570**	1,294
Finished goods	**144,294**	168,942
	162,210	182,130

Certain inventories of a subsidiary company have been pledged as collateral for borrowings as explained in Note 25.

18 TRADE RECEIVABLES

	Group	
	2008 RM'000	2007 RM'000
Trade receivables	**159,001**	287,384
Amounts due from customers on contracts (Note 29)	**4,533**	–
Less: Allowance for doubtful debts	**(7,257)**	(6,973)
	156,277	280,411

The credit terms of trade receivables range from 30 days to 120 days (2007: 30 days to 120 days). Certain trade receivables of a subsidiary company has been pledged as collateral for borrowings as explained in Note 25.

19 OTHER RECEIVABLES

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Other debtors and prepayments	**11,871**	10,448	**223**	4
Less: Allowance for doubtful debts	**(848)**	(1,014)	**–**	–
	11,023	9,434	**223**	4

20 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are unsecured and comprise:

	Company	
	2008 RM'000	2007 RM'000
Current:		
Interest bearing	**32,844**	29,697
Interest free	**108,651**	77,070
	141,495	106,767
Non-current:		
Interest bearing	**29,843**	44,780
	171,338	151,547

Notes to the Financial Statements (cont'd)

31 December 2008

20 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES (cont'd)

Amounts due to subsidiary companies are unsecured and comprise:

	Company	
	2008 RM'000	2007 RM'000
Current:		
Interest free	**70,832**	18,447

Current

The interest free portion of the amounts due from/(to) subsidiary companies have no fixed repayment terms.

The interest bearing portion of the amount due from a subsidiary company bears interest at rates ranging from 3.65% to 4.90% (2007: 3.90% to 4.50%) per annum and has no fixed repayment terms.

Non-current

The interest bearing portion of the amount due from a subsidiary company relates to the funds extended by the Company for partial funding of construction cost of the Small Volume Injectable plant and purchases of related equipment undertaken by a subsidiary company.

This amount bears interest rates ranging from 3.65% to 4.14% (2007: 3.65% to 4.14%) per annum and repayable in full upon maturity of the Murabahah MTN facility (see Note 25).

21 AMOUNTS DUE FROM/(TO) RELATED COMPANIES AND ASSOCIATED COMPANIES

The amounts due from related companies arose from billings made under the hospital equipping contracts. The amounts due to related companies arose from expenses incurred for the upgrading and refurbishment work at the manufacturing plants. The credit terms of amounts due to related companies granted to the Group range from 30 days to 60 days (2007: 30 days to 60 days) and the amounts are unsecured and interest free.

Amount due from an associated company relates to the credit term extended to the related companies is 45 days (2007: 45 days). The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment. The movements of the amount due from/to associated companies are as follow:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Amount due from associated companies	**5,627**	3,623	**613**	613
Less: Allowance for doubtful debts	**(2,536)**	(2,536)	**(613)**	(613)
	3,091	1,087	**–**	–
Amount due to an associated company	**2,112**	716	**1,468**	315

22 FIXED DEPOSITS

In previous year, included in the fixed deposit of the Group was RM8,000 (nil as at 31 December 2008) which was pledged to licensed banks for credit facility granted to a subsidiary company and as collateral for guarantees given to principals.

During the year, the effective interest rate of fixed deposits was 3.20% (2007: 6.75%) per annum.

23 NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2008 RM'000	**2007 RM'000**
Property, plant and equipment held for sale (less impairment of RM1,034,000; 2007: nil)	**45,491**	32,174
Prepaid lease payments (Note 13)	**1,791**	1,791
	47,282	33,965

The property, plant and equipment of its subsidiary Pharmaniaga Trading (M) Sdn. Bhd., with the carrying value of RM305,000 were sold to a third party for a total consideration of RM429,000.

In previous financial year, the Group had resolved to dispose certain property, plant and equipment of a subsidiary company, Safire Pharmaceuticals (M) Sdn. Bhd. to Idaman Phama (M) Sdn. Bhd., for a total consideration of RM35 million of which an initial deposit of RM350,000 has been paid. As at 31 December 2008, a total carrying amount of the property, plant and equipment was RM32,689,000.

During the financial year, the Board of Directors had resolved to dispose two lots of vacant freehold land of another subsidiary company with the carrying value of RM14,593,000. As a result, the carrying value of the land has been reclassified as non-current assets held for sale as at 31 December 2008.

24 TRADE PAYABLES

	Group	
	2008 RM'000	**2007 RM'000**
Trade payables	**236,673**	253,537
Amounts due to customers on contracts (Note 29)	**–**	1,296
	236,673	254,833

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2007: 30 days to 120 days).

Notes to the Financial Statements (cont'd)

31 December 2008

25 LOANS AND BORROWINGS

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Short term				
Unsecured:				
- Bankers' acceptance	**12,012**	91,033	**–**	–
- Murabahah Commercial Paper	**29,681**	29,697	**29,681**	29,697
	41,693	120,730	**29,681**	29,697
Secured:				
- Foreign term loan	**–**	12,719	**–**	–
- Foreign time loan	**29**	–	**–**	–
Sub-total	**41,722**	133,449	**29,681**	29,697
Add: Portion of long term borrowings due within 12 months	**54,185**	33,000	**34,800**	33,000
	95,907	166,449	**64,481**	62,697
Long term				
Unsecured:				
- Murabahah Medium Term Notes	**29,843**	44,780	**29,843**	44,780
Secured:				
- Term loan	**28,350**	46,350	**28,350**	46,350
- Foreign term loan	**22,230**	356	**–**	–
	50,580	46,706	**28,350**	46,350
Sub-total	**80,423**	91,486	**58,193**	91,130
Less: Portion of long term borrowings due within 12 months				
Unsecured:				
- Murabahah Medium Term Notes	**(15,000)**	(15,000)	**(15,000)**	(15,000)
Secured:				
- Term loan	**(19,800)**	(18,000)	**(19,800)**	(18,000)
- Foreign term loan	**(19,385)**	–	**–**	–
Sub-total	**(54,185)**	(33,000)	**(34,800)**	(33,000)
	26,238	58,486	**23,393**	58,130
Analysis of maturity of long term borrowings:				
- within 1 year	**54,185**	33,000	**34,800**	33,000
- between 1 and 2 years	**22,200**	34,593	**18,443**	34,593
- between 2 and 5 years	**4,038**	23,893	**4,950**	23,537
	80,423	91,486	**58,193**	91,130

25 LOANS AND BORROWINGS (cont'd)

The net exposure of loans and borrowings of the Group and Company to interest rates changes and the periods in which it matures are as follows:

Group	Effective interest rate % per annum	Functional currency/ currency exposure	Floating interest rate RM'000	Fixed interest rate <1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	>5 years RM'000	Total carrying amount RM'000
2008										
Bankers' acceptance	**3.32**	**RM/RM**	**12,012**	**–**	**–**	**–**	**–**	**–**	**–**	**12,012**
Murabahah Commercial Paper	**3.65**	**RM/RM**	**–**	**29,681**	**–**	**–**	**–**	**–**	**–**	**29,681**
Murabahah Medium Term Notes	**4.14**	**RM/RM**	**–**	**15,000**	**14,843**	**–**	**–**	**–**	**–**	**29,843**
Term loan	**5.50**	**RM/RM**	**28,350**	**–**	**–**	**–**	**–**	**–**	**–**	**28,350**
Foreign term loans	**13.30**	**IDR/IDR**	**21,960**	**–**	**–**	**–**	**–**	**–**	**–**	**21,960**
Foreign time loan	**15.00**	**IDR/IDR**	**29**	**–**	**–**	**–**	**–**	**–**	**–**	**29**
Hire purchase	**6.00**	**IDR/IDR**	**–**	**134**	**136**	**–**	**–**	**–**	**–**	**270**
			62,351	**44,815**	**14,979**	**–**	**–**	**–**	**–**	**122,145**
2007										
Bankers' acceptance	4.50	RM/RM	91,033	–	–	–	–	–	–	91,033
Murabahah Commercial Paper	3.91	RM/RM	–	29,697	–	–	–	–	–	29,697
Murabahah Medium Term Notes	4.14	RM/RM	–	15,000	14,793	14,987	–	–	–	44,780
Term loan	5.50	RM/RM	46,350	–	–	–	–	–	–	46,350
Foreign term loans	15.50	IDR/IDR	12,719	–	–	–	–	–	–	12,719
Foreign time loan	13.00	IDR/IDR	356	–	–	–	–	–	–	356
			150,458	44,697	14,793	14,987	–	–	–	224,935
Company										
2008										
Murabahah Commercial Paper	**3.65**	**RM/RM**	**–**	**29,681**	**–**	**–**	**–**	**–**	**–**	**29,681**
Murabahah Medium Term Notes	**4.14**	**RM/RM**	**–**	**15,000**	**14,843**	**–**	**–**	**–**	**–**	**29,843**
Term loan	**5.50**	**RM/RM**	**28,350**	**–**	**–**	**–**	**–**	**–**	**–**	**28,350**
			28,350	**44,681**	**14,843**	**–**	**–**	**–**	**–**	**87,874**
2007										
Murabahah Commercial Paper	3.91	RM/RM	–	29,697	–	–	–	–	–	29,697
Murabahah Medium Term Notes	4.14	RM/RM	–	15,000	14,793	14,987	–	–	–	44,780
Term loan	5.50	RM/RM	46,350	–	–	–	–	–	–	46,350
			46,350	44,697	14,793	14,987	–	–	–	120,827

Notes to the Financial Statements (cont'd)

31 December 2008

25 LOANS AND BORROWINGS (cont'd)

The carrying amounts of the Group and Company borrowings are denominated in the following currencies:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Ringgit Malaysia	**99,886**	211,860	**87,874**	120,827
Indonesian Rupiah	**22,259**	13,075	**–**	–
	122,145	224,935	**87,874**	120,827

Term loan

The term loan was drawn down to part finance the cost of acquisition of the remaining 30% equity interest in a subsidiary company. The term loan that is secured over the unquoted shares of that subsidiary company (Note 14) bears an average interest rate of 5.50% (2007: 5.50%) per annum.

Foreign term loans

The foreign term loans were drawn down for working capital purposes and bear interest rates ranging from 13.00% to 13.30% per annum (2007: 14.00% to 17.00% per annum). In the current financial year, an additional incidental facility amounting to Indonesian Rupiah 10 billion bearing interest rate at 13.00% per annum (2007: nil per annum) was obtained for working capital purposes. All foreign term loans are denominated in Indonesian Rupiah and are secured over certain property, plant and equipment (Note 12), inventories (Note 17) and trade receivables (Note 18) of the subsidiary company.

Foreign time loan

The foreign time loan was drawn down to finance the procurement of vehicle and building. The foreign time loan are denominated in Indonesian Rupiah and are secured over certain property, plant and equipment (Note 12), inventories (Note 17) and trade receivables (Note 18) of the subsidiary company. They bear interest rates ranging from 14.00% to 17.00% per annum (2007: 13.00% per annum).

26 SHARE CAPITAL

	Group and Company	
	2008 RM'000	2007 RM'000
Authorised:		
300,000,000 ordinary shares of RM1 each	**300,000**	300,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of year	**106,963**	106,963
Issue of shares under ESOS	**15**	–
At end of year	**106,978**	106,963

26 SHARE CAPITAL (cont'd)

(i) Employee Share Option Scheme ("ESOS")

On 4 July 2003, the Company implemented the ESOS after approvals were obtained from the relevant authorities. The ESOS is governed by the Bye-Laws which were approved by the Company's shareholders at the Extraordinary General Meeting held on 19 June 2003.

The principal features of the ESOS are as follows:

(a) Eligible employees and Executive Directors of the Company and its subsidiary companies can subscribe under the ESOS for new ordinary shares of RM1 each in the Company. The number of options granted is subject to the seniority and years of service of the respective eligible employees as provided under the ESOS Bye-Laws.

(b) The ESOS has expired on 3 July 2008. Any extension of time of the ESOS 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 ESOS prior to the expiry date.

(c) The total number of shares to be offered under the ESOS 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.

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

(e) The newly issued ordinary shares shall rank pari passu with the existing ordinary shares of the Company.

As at 31 December 2008, particulars of the outstanding options granted under the ESOS were as follows:

		Number of option over ordinary shares of RM1.00 each				
Date of offer	Option price RM	As at 1.1.2008	Granted	Exercised	Lapsed	As at 31.12.2008
7 February 2006	4.43	701,850	–	–	(701,850)	–
1 September 2006	3.91	549,900	–	–	(549,900)	–
5 September 2007	3.56	357,100	–	(14,600)	(342,500)	–
Total		1,608,850	–	(14,600)	(1,594,250)	–

No options were granted in the current financial year as the ESOS has lapsed on 3 July 2008. The fair value of the options granted in the preceding financial year determined using the Trinomial valuation model and the actual remuneration cost charged were RM3.22 per option and nil respectively.

(ii) Employee Equity Scheme ("EES") of UEM World Berhad ("UEM World")

Prior to the its restructuring, UEM World operates an equity-settled share-based compensation plan, namely EES, for the eligible employees of UEM, its subsidiaries and certain of its associated companies and Khazanah Nasional Berhad, in relation to the shares of UEM World. As then being a subsidiary company of UEM World, certain employees of Pharmaniaga Berhad and its group of companies participate in the EES. The compensation expense charged by UEM World Berhad relating to the EES granted to the employees of the Group in the financial year amounted to RM344,000 (2007: RM2,168,000). The scheme has expired on 22 October 2008.

Notes to the Financial Statements (cont'd)

31 December 2008

27 RESERVES

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-distributable:				
Share premium	**22,447**	22,410	**22,447**	22,410
Other reserves				
- Exchange reserve	**(6,491)**	(3,681)	**–**	–
- Other reserves				
- Employee Share Option Scheme (ESOS)	**–**	550	**–**	550
- Employee Equity Scheme (EES)	**–**	2,878	**–**	–
	–	3,428	**–**	550
	(6,491)	(253)	**–**	550
Distributable:				
Retained earnings	**265,101**	220,551	**65,318**	69,930
Total reserves	**281,057**	242,708	**87,765**	92,890

28 DEFERRED TAXATION

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the years are as follows:

	Group	
	2008 RM'000	2007 RM'000
Deferred tax assets	**3,246**	2,297
Deferred tax liabilities	**(3,236)**	(3,767)
	10	(1,470)
At beginning of financial year	**(1,470)**	(1,560)
(Charged)/credited to income statement (Note 9)		
- property, plant and equipment	**(620)**	(293)
- provisions	**(176)**	(401)
- unutilised tax losses	**2,276**	784
	1,480	90
At end of financial year	**10**	(1,470)
Subject to income tax		
Deferred tax assets		
- property, plant and equipment	**(68)**	292
- provisions	**1,891**	2,808
- unutilised tax losses	**1,724**	784
	3,547	3,884
Offsetting	**(301)**	(1,587)
	3,246	2,297
Deferred tax liabilities		
- property, plant and equipment	**(3,537)**	(5,354)
Offsetting	**301**	1,587
	(3,236)	(3,767)

28 DEFERRED TAXATION (cont'd)

As at 31 December 2008, the estimated amount of deferred tax assets calculated at current tax rate which have not been recognised in the Group's financial statements are as follows:

	Group	
	2008 RM'000	2007 RM'000
Unabsorbed capital allowances	–	180
Unutilised business losses	**5,139**	3,166
	5,139	3,346

The unutilised business losses are, however subject to Inland Revenue Board of Malaysia'sapproval. The potential deferred tax assets of the Group have not been recognised in respect of these items as they cannot be used to offset against taxable profits of other subsidiary companies within Group and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

29 AMOUNTS DUE TO CUSTOMERS ON CONTRACTS

	Group	
	2008 RM'000	2007 RM'000
Aggregate costs incurred to-date	**24,959**	2,173
Add: Attributable profit	**2,649**	129
	27,608	2,302
Less: Progress billings	**(23,075)**	(3,598)
Amounts due from customers (Note 18)	**4,533**	–
Amount due to customers (Note 24)	**–**	(1,296)
Contract revenue recognised during the financial year	**26,157**	2,302
Contract costs recognised as expense during the financial year	**22,786**	2,173

30 SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments. The primary format – business segments is based on the Group's management and internal reporting structure.

Intersegment pricing is based on arm's length transactions under terms not materially different from transactions with unrelated parties. These transfers 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. Unallocated items mainly comprise corporate assets and expenses, interest income, interest expenses and related assets and liabilities.

The Group comprises the following main business segments.

2008 and 2007

Business segment	Business activity
Pharmaceutical manufacturing	Manufacturing of pharmaceutical products
Pharmaceutical trading, marketing and distribution	Purchasing, storage, distribution and marketing of pharmaceutical and medical products
Medical products and services	Supply and installation of medical and hospital equipment
Other operations	Investment holding

Notes to the Financial Statements (cont'd)

31 December 2008

30 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting - Business segments

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing and distribution RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2008						
Revenue						
External sales	6,519	1,271,360	27,767	–	–	1,305,646
Intersegment sales	197,072	840	–	33,080	(230,992)	–
Total revenue	203,591	1,272,200	27,767	33,080	(230,992)	1,305,646
Results						
Segment results	44,074	62,137	(69)	22,977	(17,726)	111,393
Unallocated corporate expenses						(16,263)
Profit from operations						95,130
Interest expense	(2)	(4,083)	–	(5,536)	3,354	(6,267)
Interest income	–	795	–	3,354	(3,354)	795
Share of results of associated company						941
Profit before zakat and taxation						90,599
Zakat expense						(1,300)
Income tax expense						(27,890)
Profit for the financial year						61,409
Other information						
Segment assets	403,308	602,878	66,372	358,449	(644,924)	786,083
Investment in associated companies						7,382
Unallocated corporate assets						4,853
Total assets						798,318
Segment liabilities	222,560	400,349	52,269	189,188	(472,257)	392,109
Unallocated corporate liabilities						4,007
Total liabilities						396,116

30 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting - Business segments (cont'd)

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing and distribution RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2008						
Other information (cont'd)						
Capital expenditure on property, plant and equipments	**23,083**	**5,571**	**4**	**–**	**–**	**28,658**
Depreciation	**8,625**	**5,483**	**183**	**–**	**475**	**14,766**
Amortisation of project development expenditure and prepaid lease payments	**11**	**703**	**–**	**–**	**–**	**714**
Non cash expenses other than depreciation and amortisation	**642**	**8,463**	**971**	**176**	**–**	**10,252**
2007						
Revenue						
External sales	6,277	1,169,333	8,373	–	–	1,183,983
Intersegment sales	146,476	9,351	8	71,300	(227,135)	–
Total revenue	152,753	1,178,684	8,381	71,300	(227,135)	1,183,983
Results						
Segment results	35,316	58,420	123	69,974	(75,951)	87,882
Unallocated corporate expenses						(1,183)
Profit from operations						86,699
Interest expense	–	(6,476)	(96)	(6,726)	3,606	(9,692)
Interest income	1	627	53	3,606	(3,606)	681
Share of results of associated company	–	–	–	–	–	210
Profit before taxation						77,898
Income tax expense						(26,180)
Profit for the financial year						51,718

Notes to the Financial Statements (cont'd)

31 December 2008

30 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting - Business segments (cont'd)

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing and distribution RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2007						
Other information						
Segment assets	333,688	653,585	49,415	331,897	(495,270)	875,315
Investment in associated companies						6,441
Unallocated corporate assets						5,093
Total assets						884,849
Segment liabilities	185,540	465,857	36,406	154,711	(327,734)	514,780
Unallocated corporate liabilities						7,609
Total liabilities						522,389
Capital expenditure on property, plant and equipments	35,518	2,434	6	–	–	37,958
Depreciation	9,955	5,962	435	–	475	16,827
Amortisation of project development expenditure and prepaid lease payments	57	705	–	–	–	762
Non cash expenses other than depreciation and amortisation	2,847	3,968	180	23	–	7,018

30 SEGMENTAL REPORTING (cont'd)

(b) Secondary reporting - Geographical segments

	Revenue from external customers RM'000	Total segment assets RM'000	Capital expenditure and intangible assets incurred during the year RM'000
Geographical markets			
2008			
Malaysia	**984,861**	**702,047**	**25,025**
Indonesia	**306,038**	**96,271**	**3,633**
Other countries	**14,747**	**–**	**–**
	1,305,646	**798,318**	**28,658**
2007			
Malaysia	904,287	803,091	36,792
Indonesia	268,051	81,758	1,166
Other countries	11,645	–	–
	1,183,983	884,849	37,958

In determining the geographical segments of the Group, revenue is based on the country in which the customer is located. Total segment assets and capital expenditure incurred during the year are determined based on where the assets are located.

31 COMPARATIVE FIGURES

The following comparative amounts have been restated as a result of reclassification of balances. The effects on the balance sheet of the comparative amounts are as follows:

	2007 As previously reported RM'000	Reclassification RM'000	2007 As restated RM'000
Balance sheet			
Property, plant and equipment	241,013	18,234	259,247
Prepaid lease payments	21,431	(18,234)	3,197

Notes to the Financial Statements (cont'd)

31 December 2008

32 CAPITAL COMMITMENTS

Capital expenditure in respect of the following has not been provided for in the financial statements:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Authorised and contracted for:				
- acquisition of property, plant and equipment	**7,698**	11,214	**–**	–
Authorised but not contracted for:				
- acquisition of property, plant and equipment	**3,681**	–	**–**	–

33 CONTINGENT LIABILITIES - UNSECURED

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Corporate guarantee given to financial institution for credit facilities extended to a subsidiary company	**–**	–	**21,960**	12,648
Bank performance and reimbursement bonds for concession business undertaken by a subsidiary company	**45,000**	45,000	**–**	–
Bank guarantees for projects and utilities undertaken by subsidiary companies	**16,516**	25,116	**–**	–

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group and Company, if the Group and 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 Company and the party are subject to common control or common significant influence. Related parties may be individual or other entities.

Other than disclosed elsewhere in the financial statements, the transactions with related parties were as follows:

Group	2008 RM'000	2007 RM'000
(a) Sales of goods and services		
Sales of goods:		
- Related company		
• supply of medical equipment	**26,373**	2,458
- Company within the immediate holding company		
• sale of disinfectant range of products	**1,597**	1,383
	27,970	3,841

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

Group	2008 RM'000	2007 RM'000
(b) Purchases of services		
- Related companies		
• Construction and engineering work	**–**	949
• Transportation and freight forwarding services	**1,960**	2,259
• Provision of scheduled waste treatment and disposal services	**114**	254
- Company within the immediate holding company		
• Training and administration services	**1,003**	863
- The associated company		
• Provision of IT Consultancy, technical support services and granting of software license	**24,085**	15,025
	27,162	19,350
Company		
Dividend income from subsidiary companies	**20,700**	71,300
Advances from subsidiary companies for:		
• Redemption of Murabahah Commercial Papers	**–**	10,000
• Redemption of Murabahah Medium Term Notes	**15,000**	15,000
Finance expense charges to subsidiary companies for:		
• Profit for Murabahah Commercial Papers	**1,212**	1,178
• Profit for Murabahah Medium Term Notes	**2,143**	2,430
	39,055	99,908

The Directors of the Company are of the opinion that the above transactions have been entered at:

(i) arm's length and on normal commercial terms;

(ii) terms not more favourable to the related parties than those generally available to the public; and

(iii) not to the detriment of the minority shareholders.

(c) Remuneration of key management personnels

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Salaries, bonus and allowances	**3,695**	3,083	**1,708**	–
Social contribution cost	**1**	2	**–**	–
Defined benefit plans	**2,124**	834	**1,969**	–
Defined contribution plan	**485**	413	**258**	–
Estimated monetary value of benefits by way of usage of Group assets	**1**	11	**1**	–
Others	**170**	229	**92**	–
	6,476	4,572	**4,028**	–

Notes to the Financial Statements (cont'd)

31 December 2008

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(d) Significant outstanding balances

Significant outstanding arising from the above transactions were as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Amount due from related parties				
Immediate holding company	**–**	18	**–**	18
Subsidiary companies	**–**	–	**141,495**	106,767
Related companies	**19,752**	13,698	**–**	–
Associated companies	**3,091**	1,087	**–**	–
Amount due to related parties				
Immediate holding company	**21**	–	**21**	–
Subsidiary companies	**–**	–	**70,832**	18,447
Related companies	**2,244**	2,561	**713**	2
Associated companies	**2,112**	716	**1,468**	315

35 SIGNIFICANT EVENTS

Significant events of the Group during the financial year are as follows:

(a) The liquidation of the two dormant subsidiary companies of the Group, namely Pharmaniaga Medisystem Sdn. Bhd., Pharmaniaga Diagnostics Sdn. Bhd. and an associated company, Rumpun Lagenda Sdn. Bhd. were completed while Pharmaniaga Trading (M) Sdn. Bhd., a dormant subsidiary company of the Group is in progress.

(b) On 2 July 2008, the Company had acquired 2 ordinary shares of RM1.00 each fully paid representing 100% equity interest in Pharmaniaga Biovention Sdn. Bhd. of which its application for bionexus status is currently in progress.

(c) On 28 August 2008, in accordance with Part II of the Malaysian Code on Take-Overs and Mergers, 1998, UEM Group Berhad ("UEM Group") extended a mandatory take-over offer for the remaining voting shares in Pharmaniaga Berhad ("the Company") that the UEM Group does not already own ("Offer"). At the closing date of the Offer on 6 November 2008, the shareholding position of UEM Group and persons acting in concert with it as at 5.00pm was 92,868,619 Pharmaniaga shares representing 86.81% of the issued and paid up capital of the Company. Consequently, Pharmaniaga does not comply with the requirement under Paragraph 8.15 (1) of the Listing Requirements of Bursa Securities, of ensuring at least 25% of the total listed Pharmaniaga shares are in the hands of at least 1,000 public shareholders holding not less than 100 Pharmaniaga shares each ("Required Public Shareholding Spread"). Due to the current share market scenario coupled with the uncertain global economy, UEM Group has not, at this juncture, formulated any steps to comply with the Required Public Shareholding Spread, but will use its best endeavours to achieve the public shareholding spread requirement by 5 May 2009.

(d) On 25 November 2008, Safire Pharmaceuticals (M) Sdn. Bhd., a wholly-owned subsidiary of the Company entered into a Sale and Purchase of Land and Assets with Idaman Pharma Sdn. Bhd. to sell certain assets of the company with carrying value of RM32,689,000 for a total consideration of RM35 million.

36 MATERIAL LITIGATION

(a) Demand by Siemens Financial Services GmbH ("Siemens")

On 26 March 2004, two of the Company's subsidiary companies namely Pharmaniaga Logistics Sdn. Bhd. and Safire Pharmaceuticals (M) Sdn. Bhd.("Safire"), were served with letter of demand by Siemens claiming for payment amounting to USD12.0 million for an alleged dishonour of payment for ten (10) promissory notes of USD1.2 million each.

No civil suit has been filed in respect of this matter and the subsidiary companies have refuted the demand based on the fact that the promissory notes were invalid and forged.

The Board of Directors of Pharmaniaga, upon consultation with the solicitors is of the opinion that subsidiary companies' position is defendable and this amount has not been provided for in the financial statements as the Directors are of the opinion that the likelihood of the event to be in favour of Siemens is remote.

(b) Counterclaims by former Directors of Safire Pharmaceuticals (M) Sdn. Bhd.

The Company announced on 18 January 2005, that Safri bin Nawawi and Hamimah binti Idruss, former directors of Safire, on 28 December 2004 have each commenced an action by way of Counterclaim against the Company in the legal suit originally filed by Danaharta Urus Sdn. Bhd. against them. The Company and Safire are named 4th Defendant and 3rd Defendant respectively in both Actions by Counterclaim and were served with the court papers on 11 January 2005. The Company had filed its Memorandum of Appearance in Court on 14 January 2005 and 18 January 2005 in respect of the Counterclaim.

The Company and Safire have both filed their respective defense to the Action by Counterclaim on 31 January 2005. The Company has further filed an application to strike out the Counterclaim on 3 March 2005.

Safri and Hamimah have filed an appeal in the Court of Appeal against the decision of the High Court on 17 November 2008 in dismissing their various interlocutory applications. As there is no application for a stay of proceedings in the High Court and Court of Appeal by Safri and Hamimah, the High Court will fix the next date for the Company's application to strike out the Counterclaim by Safri and Hamimah in due course.

The Board of Directors of the Company upon consultation with the solicitors, is of the opinion that the positions of both the Company and Safire are defendable.

37 FINANCIAL RISK MANAGEMENT POLICIES

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.

The main areas of financial risk faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

(a) Foreign currency risk

The Group is exposed to foreign currency transactions as a result of its subsidiary companies' normal operating activities. The Group's policy is to minimise its foreign currency exposure by entering into contracts in Ringgit Malaysia or US Dollar denomination where possible.

Notes to the Financial Statements (cont'd)

31 December 2008

37 FINANCIAL RISK MANAGEMENT POLICIES (cont'd)

(a) Foreign currency risk (cont'd)

The financial assets and liabilities of the Company are denominated in Ringgit Malaysia. The currency exposure of financial assets and financial liabilities of the Group that are not denominated in its functional currency is set out below:

	Currency exposure at 31.12.2008			
	US Dollar RM'000	**Euro RM'000**	**Singapore Dollar RM'000**	**Others RM'000**
Trade receivables	**3,651**	**–**	**–**	**–**
Deposits, bank and cash balances	**5,561**	**–**	**–**	**–**
Trade payables	**(1,494)**	**(121)**	**–**	**–**
	7,718	**(121)**	**–**	**–**

	Currency exposure at 31.12.2007			
	US Dollar RM'000	**Euro RM'000**	**Singapore Dollar RM'000**	**Others RM'000**
Trade receivables	969	–	37	–
Deposits, bank and cash balances	366	–	–	–
Trade payables	(5,545)	–	–	–
Other payables	(2)	–	–	(8)*
	(4,212)	–	37	(8)

* Balances denominated in Sterling Pound and Australian Dollar

(b) Interest rate risk

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows the Group to capitalise on funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

(c) Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Furthermore, sales to customers are suspended when earlier amounts are overdue by more than 120 days except for sales to government institutions and related agencies. The Group considers the risk of material loss in the event of non-performance by customers to be unlikely.

The Group has a substantial concentration of credit risk with its customers under the concession contracts 41% (2007: 75%) of trade receivables at the balance sheet date was from Ministry of Health. However, majority of the amount has been paid since the end of the financial year to the date of this report.

37 FINANCIAL RISK MANAGEMENT POLICIES (cont'd)

(d) Market risk

For key product purchases, the Group establishes negotiated price levels that the Group considers acceptable and enters physical supply agreements to achieve these levels and secure contracts with suppliers for a fixed period of time. The Group does not face significant exposure to the risk in price level changes.

(e) Liquidity and cash flow risks

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

38 FAIR VALUES

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximated their fair values except as set out below:

	2008		2007	
	Carrying value RM'000	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Group				
Financial liabilities				
Loans and borrowings	**26,238**	**20,111**	58,486	55,924
Company				
Financial liabilities				
Loans and borrowings	**23,393**	**19,830**	58,130	55,568

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 4.50% to 5.50% (2007: 4.40% to 5.80%) per annum.

The carrying amounts of short-term borrowings approximate their fair value. The fair value of contingent liabilities is nil (2007: nil).

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 February 2009.

Group's Properties

as at 31 December 2008

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 31/12/2008 (RM'000)	Date of Revaluation/ Acquisition
Lot PT 46016, H.S. (D) 87359 Mukim of Kapar Klang, Selangor **Industrial Premises:** No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam Selangor	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	14	30,276	14 March 2005
Lot PT 46016, H.S. (D) 87359 Mukim of Kapar Klang, Selangor **Industrial Premises:** No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan Seksyen 7, 40000 Shah Alam Selangor	A parcel of industrial land with a single storey laboratory building, a chiller plant building and a guard house	17,414	Freehold	11	15,635	14 March 2005
Geran 44309, Geran 44310 and Geran 44311 of Lots 7, 8 and 9 of Mukim Pekan Puchong Perdana and District of Petaling Selangor	3 pieces of contiguous freehold industrial land with an industrial building	71,298	Freehold	8	66,605	21 August 2001
Lot PT 1157, H.S. (M) 9726 Mukim of Kajang Hulu Langat, Selangor **Factory:** No 11A, Jalan P/1 Kawasan Perindusrian Bangi 43650 Bandar Baru Bangi Selangor	A parcel of industrial land with 3 industrial buildings, a office/ workshop, a canteen, a TNB sub-station and a guard house	12,141	Leasehold of 99 years, expiring on 29 September 2086	23	33,447	28 August 1991
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, warehouse and a guard house	6,560	Leasehold of 60 years, expiring on 15 August 2056	12	7,545	3 November 2004

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 31/12/2008 (RM'000)	Date of Revaluation/ Acquisition
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 2-storey office, warehouse and a guard house	6,111	Leasehold of 66 years, expiring on 21 December 2033	6/35	4,370	21 January 2002
H.S. (M) 1479, H.S. (M) 1480 and H.S. (M) 1481 Lot No 3806, 3807 and 3808, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang **Industrial Premises:** Nos. 1,3 & 5, Lorong IKS Juru 8 Taman Perindustrian Ringan Juru, 14100 Seberang Perai Pulau Pinang	3 contiguous 1 1/2 semi detached warehouse with office	2,175	Freehold	11	1,273	11 November 1998
Flat Nos. 401-405 3rd Floor, Block 5 Jalan 1/9 Section 1 43650 Bandar Baru Bangi Selangor	5 units of 2-bedroom flat for staff lodging	296	Leasehold of 99 years, expiring on 31 March 2095	15	44	10 June 1993 and 19 July 1995
Flat Nos. 501, 503, 505 and 507, 4th Floor, Block 10 Jalan 6C/11, Section 16 43650 Bandar Baru Bangi Selangor	4 units of 2-bedrooms flat for staff lodging	262	Leasehold of 99 years, expiring on 31 March 2095	13	28	11 June 1993
Lot PT 10908, H.S. (M) 9124 Mukim of Kajang Hulu Langat Selangor **House:** No 5, Jalan 4/4E, Section 4 43650 Bandar Baru Bangi Selangor	A 2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	22	23	4 September 1987
Lot PR 10911, H.S. (M) 9127 Mukim of Kajang, Hulu Langat Selangor **House:** No 11, Jalan 4/4E, Section 4 43650 Bandar Baru Bangi Selangor	A 2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	22	23	4 September 1987

Group's Properties (cont'd)

as at 31 December 2008

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 31/12/2008 (RM'000)	Date of Revaluation/ Acquisition
PN 169249, Lot 278 Bandar Seri Iskandar Perak Tengah, Perak	A parcel of industrial land with a detached industry building comprising a 2-storey office building, a surau, a canteen, warehouses, penicillin and non-penicillin production plant buildings, a laboratory building, a chiller plant building, a boiler house, a TNB sub-station an a guard house	28,795	Leasehold for 99 years, expiring on 31 March 2100	8	9,982	14 March 2001
PN 169248, Lot 277 Bandar Seri Iskandar Perak Tengah, Perak		14,707	Leasehold for 99 years, expiring on 31 March 2100	8	5,098	14 March 2001
PN 169247, Lot 276 Bandar Seri Iskandar Perak Tengah, Perak **Industrial Premises:** Lot 120, Taman Farmasiutikal 32600 Bandar Baru Seri Iskandar, Perak		17,252	Leasehold for 99 years, expiring on 31 March 2100	8	5.980	14 March 2001
Blok D. 20 & 21 Ruko Grand Mal Bekasi	Shop lots	544	Leasehold 20 years to 24 September 2013	11	128	13 October 2003
Jalan Depsos 67 - 70 Bintaro Jaksel	Office and warehouse	3,570	Leasehold 30 years to 9 December 2027	16	1,134	14 January 1999
Apartmen Permata Eksekutif Jalan Pos Pengumben Raya Jak-Bar	Shop lots	290	Leasehold 20 years to 2015	8	202	6 May 2004
Jalan Kalibokor Selatan 152 Surabaya	Office and warehouse	1,952	Leasehold 5 years to 30 June 2010 (in progress to extend)	23	6	4 November 1971

Analysis of Shareholdings

as at 31 March 2009

SHARE CAPITAL

Authorised Share Capital	: RM300,000,000 divided into 300,000,000 ordinary shares of RM1.00 each
Issued and Fully Paid-up Capital	: RM106,977,788 divided into 106,977,788 ordinary shares of RM1.00 each
Class of Shares	: Ordinary shares of RM1.00 each
Voting Rights	: 1 vote per ordinary share held

SHAREHOLDINGS DISTRIBUTION

Size of Holdings	No. of Holders	% of Holders	No. of Shares Held	% of Issued Capital
Less than 100	279	25.48	8,662	0.01
100 to 1,000	462	42.19	144,513	0.14
1,001 to 10,000	304	27.76	1,051,694	0.98
10,001 to 100,000	38	3.47	1,151,400	1.08
100,001 to less than 5% of issued shares	11	1	11,752,900	10.99
5% and above of the issued shares	1	0.09	92,868,619	86.81
TOTAL	**1,095**	**100.00**	**106,977,788**	**100.00**

30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
1	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account for UEM Group Berhad	92,868,619	86.81
2	Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputera	4,740,600	4.43
3	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Didik	2,494,200	2.33
4	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Wawasan 2020	1,294,700	1.21
5	Amanah Raya Nominees (Tempatan) Sdn Bhd Sekim Amanah Saham Nasional	962,500	0.90
6	MCIS Zurich Insurance Berhad	655,800	0.61
7	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Bank Berhad	599,700	0.56
8	Permodalan Nasional Berhad	294,700	0.28
9	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Bhd (Life)	225,000	0.21
10	MCIS Zurich Insurance Berhad	205,700	0.19

Analysis of Shareholdings (cont'd)

as at 31 March 2009

30 LARGEST SHAREHOLDERS (as per the Register of Depositors) (cont'd)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
11	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Berhad (Non-Life)	150,000	0.14
12	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation	130,000	0.12
13	Wong Nyet Lan	90,000	0.08
14	BH Insurance (M) Bhd	80,000	0.07
15	Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Sleuths Holdings Sdn Bhd	80,000	0.07
16	Foo Wan Kong	57,000	0.05
17	Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Melval Holdings Sdn Bhd	57,000	0.05
18	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Gemilang for Amanah Saham Pendidikan	50,000	0.05
19	Teng Wee Eng	48,000	0.04
20	Wong Lok Jee @ Ong Lok Jee	43,000	0.04
21	Pang Tee Chew	40,000	0.04
22	Yap Ah Mooi	40,000	0.04
23	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Goldinas Sdn Bhd	40,000	0.04
24	Liew Wai Kiat	40,000	0.04
25	Hoh Thiam Fatt @ Hoh Yuen Fun	35,000	0.03
26	Abdul Rahim bin Bidin	30,500	0.03
27	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tiong Kiong King	30,000	0.03
28	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB For Raja Nong Chik Bin Raja Zainal Abidin	27,000	0.03
29	Kong Chock Heng	23,000	0.02
30	Premier Beauty Sdn Bhd	22,000	0.02
	Total	**105,454,019**	**98.56**

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

No.	Name of Substantial Shareholders	No. of Shares Held			
		Direct	%	Indirect	%
1	Khazanah Nasional Berhad	–	–	92,868,619 [1]	86.81
2	UEM Group Berhad	92,868,619	86.81	–	–
3	Amanah Raya Nominees (Tempatan) Sdn Bhd	9,542,000	8.92	–	–

Notes

[1] Deemed interested by virtue of being the holding company of UEM Group Berhad.

DIRECTORS' SHAREHOLDING (as per the Register of Directors' Shareholding)

No.	Name of Directors	No. of Shares Held in Pharmaniaga Berhad			
		Direct	%	Indirect	%
1	Dato' Mohamed Azman bin Yahya	–	–	10,000 [1]	0.01
2	Dato' Ahmad Pardas bin Senin	–	–	–	–
3	Datuk Sulaiman bin Daud	–	–	–	–
4	Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh	–	–	–	–
5	YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	27,000	0.03	2,000 [2]	*
6	Mohamad bin Abdullah	100	*	–	–
7	Ismael Fariz bin Ali	–	–	–	–
8	Oh Kim Sun	–	–	177,000 [3]	0.17

Notes

* Less than 0.01%

[1] Deemed interested by virtue of his spouse's shareholding in Pharmaniaga Berhad.

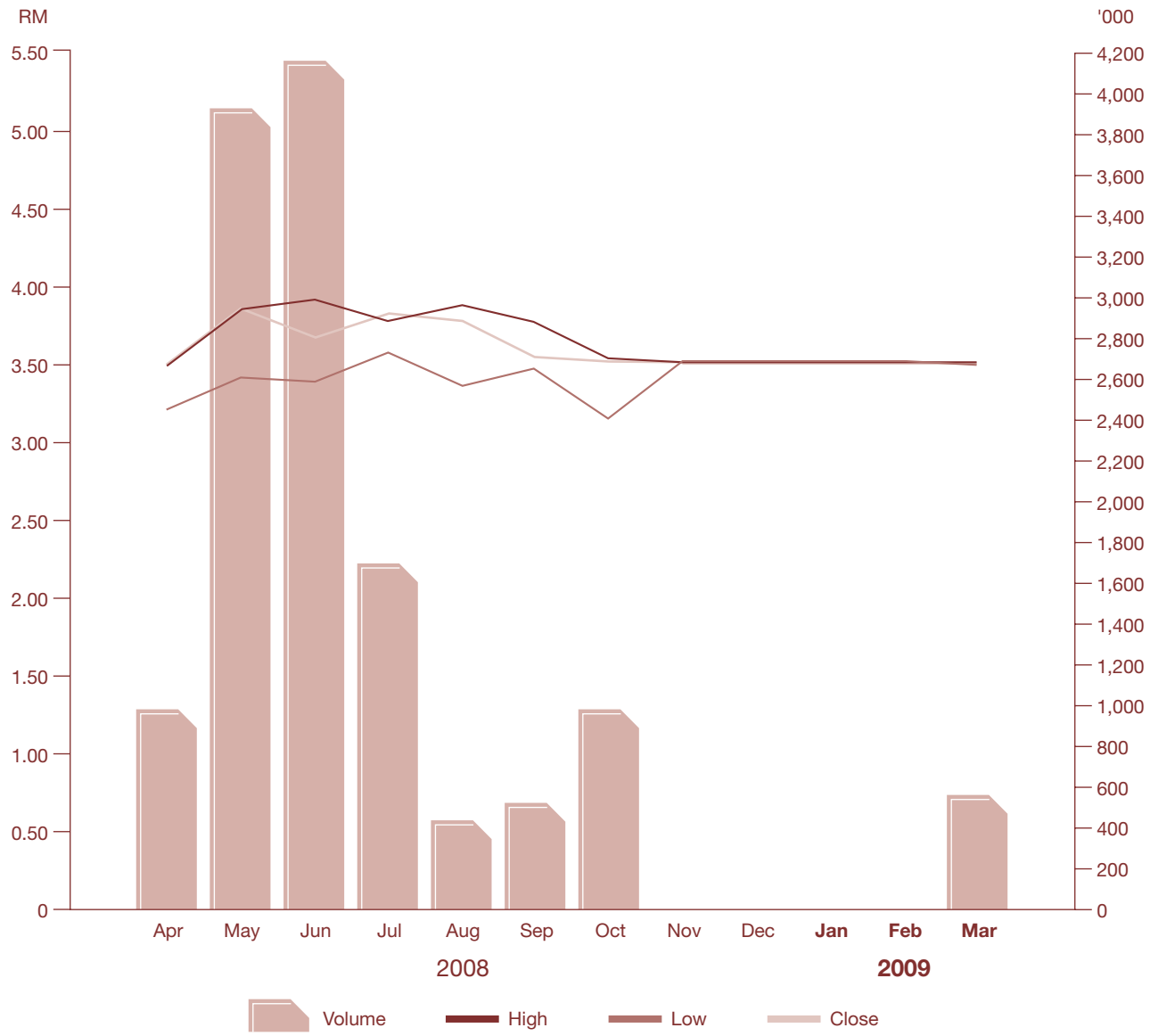
[2] Deemed interested by virtue of his sister in-law's shareholding in Pharmaniaga Berhad.

[3] Deemed interested by virtue of his associate companies' shareholdings in Pharmaniaga Berhad. 80,000 shares held through Sleuths Holdings Sdn Bhd; 57,000 shares held through Melval Holdings Sdn Bhd and 40,000 shares held through Goldinas Sdn Bhd.

Share Performance

for the period April 2008 - March 2009

	2008									2009		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
High (RM)	3.50	3.88	3.92	3.80	3.90	3.80	3.56	3.52	3.52	**3.52**	**3.52**	**3.52**
Low (RM)	3.22	3.42	3.40	3.60	3.38	3.44	3.18	3.52	3.52	**3.52**	**3.52**	**3.50**
Close (RM)	3.50	3.88	3.60	3.74	3.80	3.56	3.52	3.52	3.52	**3.52**	**3.52**	**3.52**
Volume ('000)	997	3,940	4,186	1,688	426	526	997	–	–	–	–	**576**



Group Corporate Directory

List of Companies	Address
• **Pharmaniaga Berhad** • **Pharmaniaga Logistics Sdn Bhd** • **Pharmaniaga International Corporation Sdn Bhd** • **Pharmaniaga Biomedical Sdn Bhd** • **Pharmaniaga Marketing Sdn Bhd** • **Pharmaniaga Biovention Sdn Bhd**	No. 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan Seksyen 7, 40000 Shah Alam Selangor Darul Ehsan Tel : 03 - 3342 9999 Fax : 03 - 3341 7777 **Mailing address** P.O. Box 2030, Pusat Bisnes Bukit Raja 40800 Shah Alam Selangor Darul Ehsan
• **Pharmaniaga Manufacturing Berhad** • **Pharmaniaga Research Centre Sdn Bhd**	11A Jalan P/1 Kawasan Perusahaan Bangi 43650 Bandar Baru Bangi Selangor Darul Ehsan Tel : 03 - 8925 7880 Fax : 03 - 8925 6177
• **Pharmaniaga LifeScience Sdn Bhd**	Lot 7, Jalan PPU 3 Taman Perindustrian Puchong Utama 47100 Puchong Selangor Darul Ehsan Tel : 03 - 8061 2006 Fax : 03 - 8061 2875
• **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 : 04 - 508 3330/1/2 Fax : 04 - 508 3111
• **Pharmaniaga Logistics Sdn Bhd (Kuching Branch)**	Lot 1024, Block 7 Muara Tebas Land District Demak Laut Industrial Park 93050 Kuching, Sarawak Tel : 082 - 432 800 Fax : 082 - 432 806

Group Corporate Directory (cont'd)

List of Companies	Address
• **Pharmaniaga Logistics Sdn Bhd (Kota Kinabalu Branch)**	Lorong Kurma Kolombong Industrial Centre KM 9 Off Jalan Tuaran 88450 Kolombong Kota Kinabalu, Sabah Tel : 088 - 439 188 Fax : 088 - 437 288
• **PT Millennium Pharmacon International Tbk (HQ)**	Panin Bank Centre 9th Floor, Jl-Jendral Sudirman Senayan, Jakarta 10270 Indonesia Tel : 62 - 21 727 88906/7 Fax : 62 - 21 722 8090
• **Ipoh Sales Office**	No. 9 (A) Hala Bandar Baru Tambun 18 31400 Perak Darul Ridzuan Tel : 05 - 545 9792 Fax : 05 - 545 9795
• **Johor Sales Office**	No. 38-1, Jalan Titiwangsa 3 Taman Tampoi Indah 81200 Johor Bahru Johor Darul Takzim Tel : 07 - 241 7046 Fax : 07 - 241 9523
• **Safire Pharmaceuticals (M) Sdn Bhd (HQ and Plant)**	Lot 120, Taman Farmasiutikal 32600 Bandar Baru Sri Iskandar Perak Darul Ridzuan Tel : 05 - 371 2020 Fax : 05 - 371 1940/46

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pharmaniaga BERHAD (467709-M)
(Incorporated in Malaysia)

PROXY FORM

No. of Shares	CDS Account Number

I/We, _____
(FULL NAME IN BLOCK LETTERS)
of _____
(ADDRESS)
being a member/members of PHARMANIAGA BERHAD hereby appoint _____

_____
(FULL NAME IN BLOCK LETTERS)
of _____
(ADDRESS)
or failing him, _____
(FULL NAME IN BLOCK LETTERS)
of _____
(ADDRESS)

or failing him/her the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Eleventh Annual General Meeting of the Company to be held at the Zamrud Ballroom, The Saujana Kuala Lumpur, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan on **Tuesday, 26 May 2009** at **10.30 a.m.** and at any adjournment thereof.

I/We desire to vote as the Resolution set out in the Notice of Meeting and summarised below as indicated with an "X" in the appropriate space.

No	Ordinary Resolution	For	Against
1	Declaration of a Final Gross Dividend of 27 sen per ordinary share less 25 percent income tax for the financial year ended 31 December 2008 as recommended by the Directors.		
2	Re-election of Datuk Sulaiman bin Daud as Director.		
3	Re-election of Mr Oh Kim Sun as Director.		
4	Re-election of Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh as Director.		
5	Payment of Directors' Fees for the financial year ended 31 December 2008.		
6	Re-appointment of Messrs PricewaterhouseCoopers as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.		
7	Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.		
8	Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		

Dated this _____day of _____ 2009.

_____
Signature(s) of member(s)

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. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy.

2 The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.

3 Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act 1991, he may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

4 The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Company's share registrar, Symphony Share Registrars Sdn Bhd, 26th Floor, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur at least forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof. The Annual Report and Proxy Form are available for access and download at the Company's website at **www.pharmaniaga.com**

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STAMP

Share Registrar
Symphony Share Registrars Sdn Bhd (378993-D)

26th Floor, Menara Multi-Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
Malaysia

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