

pharmaniaga

A member of **UEM** 

2009 Annual Report

A photograph of a modern, multi-story office building with a white and orange facade. The building has large glass windows and a prominent orange section on the right. In the foreground, there are green plants and a parking lot with several cars. The sky is blue with scattered white clouds.

DELIVERING VALUE

pharmaniaga

delivering value

Pharmaniaga Berhad, the largest integrated local healthcare company has established the reputation of a corporation that delivers value to its clients and stakeholders through impeccable quality products and services. The Group is driven by its goal to enrich the lives of the communities it serves while being guided by its business philosophy of doing business with a conscience. Hence, this cover concept coupled with the theme aptly depicts the Group and its core focus. The clear sky in the cover portrays positivity while the green grass and flowers in bloom symbolise Pharmaniaga's proven capabilities and continuous growth. The Group's office building emphasised in the middle of the cover signifies its solid presence in the industry and the boundless opportunities to come.

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 12th Annual General Meeting of PHARMANIAGA BERHAD (467709-M) (“the Company”) will be held at Concorde 1 (Level 2), Concorde Hotel Shah Alam, 3 Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 27 May 2010 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 2009 together with the Reports of the Directors and the Auditors thereon. | |
| 2 | To declare a final gross dividend of 27 sen less taxation of 25% and a special gross dividend of 10 sen less taxation of 25% for the financial year ended 31 December 2009 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 Dato’ Mohamed Azman bin Yahya | Resolution 2 |
| | b Mohamad bin Abdullah | Resolution 3 |
| 4 | To approve the payment of Directors’ Fees in respect of the financial year ended 31 December 2009. | Resolution 4 |
| 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 5 |

AS SPECIAL BUSINESS

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

- | | | |
|---|---|---------------------|
| 6 | Ordinary Resolution | Resolution 6 |
| | Authority to issue shares pursuant to Section 132D of the Companies Act 1965 | |
| | <p>“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.”</p> | |

7 Ordinary Resolution**Resolution 7****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 2.2.1 of the Circular to Shareholders dated 5 May 2010) 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 12th Annual General Meeting to be held on Thursday, 27 May 2010, a final gross dividend of 27 sen per ordinary share less 25% Malaysian Income Tax and a Special Dividend of 10 sen less taxation of 25% for the financial year ended 31 December 2009 will be paid on 15 July 2010 to Depositors registered in the Record of Depositors at the close of business on 14 June 2010.

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 14 June 2010 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 Securities Berhad.

BY ORDER OF THE BOARD

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

Kuala Lumpur
5 May 2010

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 6 - Authority to issue 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 7 - 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 5 May 2010 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 Securities Industry (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 at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor 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 12th Annual General Meeting pursuant to paragraph 8.27(2) of the Main Market 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 Dato' Mohamed Azman bin Yahya
- b Mohamad bin Abdullah

2 BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

A total of eight (8) meetings were held during the financial year ended 31 December 2009 in which four (4) were Ordinary Board Meetings while another four (4) were Special Board Meetings (*).

Date	Time	Venue
26 February 2009	5.50 p.m.	Supreme Room, Level 7, Mercu UEM, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur
*12 March 2009 (Special)	8.30 a.m.	Mirah Room, Holiday Inn, Bandung, Indonesia
8 May 2009	9.00 a.m.	Pacific Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
*26 May 2009 (Special)	12.09 p.m.	Zamrud Ballroom, The Saujana Kuala Lumpur Jalan Lapangan Terbang SAAS, 40150 Shah Alam Selangor Darul Ehsan
21 August 2009	9.30 a.m.	Pacific Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
*30 October 2009 (Special)	9.00 a.m.	Pacific Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
13 November 2009	9.00 a.m.	Pacific Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam, Selangor Darul Ehsan
*14 December 2009 (Special)	9.00 a.m.	Pacific Room, 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 2009

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	8/8	100.00
Datuk Sulaiman bin Daud	8/8	100.00
Mohamad bin Abdullah	8/8	100.00
Dato' Ahmad Pardas bin Senin (Resigned on 02/06/2009)	3/4	75.00
Allahyarham Ismael Fariz bin Ali (Resigned on 16/10/2009)	2/5	40.00
Oh Kim Sun	8/8	100.00
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin (Resigned on 24/04/2009)	2/2	100.00
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Haji Salleh	8/8	100.00

4 DATE, TIME AND PLACE OF THE ANNUAL GENERAL MEETING

Date : Thursday, 27 May 2010

Time : 10.30 a.m.

Place : Concorde 1 (Level 2), Concorde Hotel Shah Alam, 3 Jalan Tengku Ampuan Zabedah C9/C
40100 Shah Alam, Selangor Darul Ehsan

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

The details of the two (2) Directors seeking re-election are set out in their respective profiles which appear in the Profile of Directors on pages 16 to 18 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 119 of this Annual Report.

Corporate Information

NO.	NAME	POSITION	AUDIT COMMITTEE	NOMINATION COMMITTEE	RISK MANAGEMENT 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.	Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor Bin Hj. Salleh	Independent Non-Executive Director	◆	◆	◆	
5.	Oh Kim Sun	Independent Non-Executive Director	◆	◆		◆
◆	Chairman	◆	Member			

COMPANY SECRETARIES

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad,
Main Market - Trading/Services

REGISTERED ADDRESS

19-2 Mercu UEM, Jalan Stesen Sentral 5
Kuala Lumpur Sentral, 50470 Kuala Lumpur
Tel: +603-2727 6868 Fax: +603-2727 6856

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)
Block D13, Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Tel: +603-7841 8000 Fax: +603-7841 8008

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
Bank Islam Malaysia Berhad

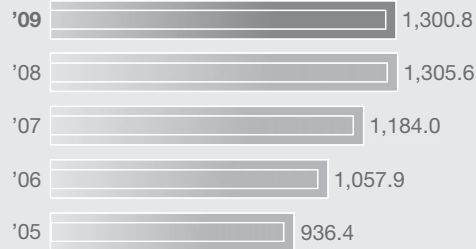
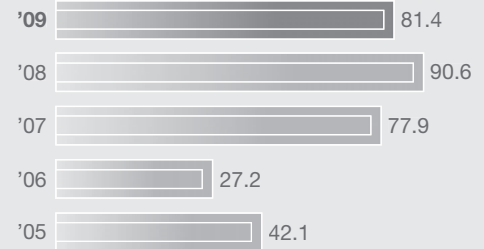
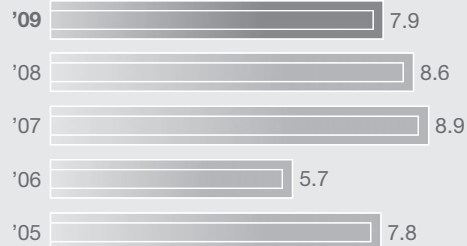
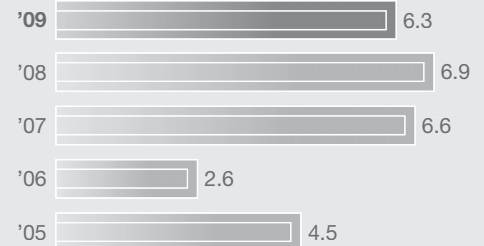
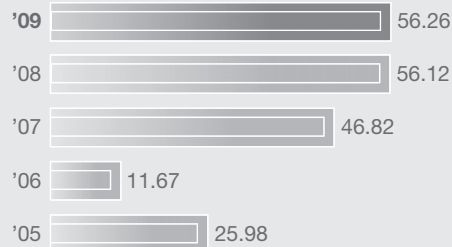
BUSINESS ADDRESS

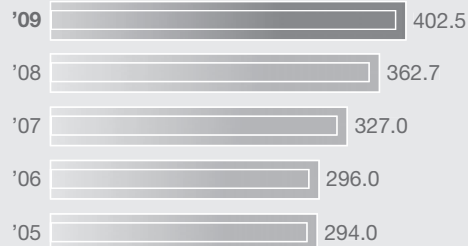
No. 7 Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan
Tel: +603-3342 9999 Fax: +603-3341 7777

Group 5-Year Financial Summary

Consolidated profit and loss accounts for the years ended 31 December

	2009	2008	2007	2006	2005
RM'000					
Turnover	1,300,796	1,305,646	1,183,983	1,057,868	936,431
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	102,368	115,380	105,179	60,218	72,868
Profit before taxation	81,436	90,599	77,898	27,195	42,072
Taxation	(19,709)	(29,190)	(26,180)	(13,111)	(12,938)
Profit after taxation	61,727	61,409	51,718	14,084	29,134
Minority interest	(1,536)	(1,378)	(1,638)	(1,603)	(2,232)
Profit attributable to shareholders	60,191	60,031	50,080	12,481	26,902
Dividend	21,663	19,253	16,044	12,300	14,483
Retained profit for the year	38,528	40,778	34,036	181	12,419
sen					
Per share statistics					
Net earnings per share	56.26	56.12	46.82	11.67	25.98
Net assets per share	402.5	362.7	327.0	296.0	294.0
Dividend per share	37.0	27.0	18.0	15.0	15.0
%					
Profitability / Return ratio					
EBITDA margin	7.9	8.8	8.9	5.7	7.8
Profit before taxation on turnover	6.3	6.9	6.6	2.6	4.5
Profit after taxation and minority interest on average shareholders' funds	14.7	16.3	15.0	4.0	9.0

Turnover
 RM million

Profit before Taxation
 RM million

EBITDA Margin
 %

Profit before Taxation Margin
 %

Net Earnings Per Share
 Sen

Return on Shareholders' Funds
 %

Net Assets Per Share
 Sen


Group Financial Performance Highlights

for three years ended 31 December

		2009	2008	2007	% change from prior year 2009 vs 2008 2008 vs 2007	
	RM'000					
Turnover		1,300,796	1,305,646	1,183,983	-0.4%	10.3%
Earnings before interest, taxation, depreciation and amortisation		102,368	115,380	105,179	-11.3%	9.7%
Profit before taxation		81,436	90,599	77,898	-10.1%	16.3%
Profit attributable to shareholders		60,191	60,031	50,080	0.3%	19.9%
Total assets		818,245	798,318	884,849	2.5%	-9.8%
Total borrowings		65,505	122,145	224,935	-46.4%	-45.7%
Total shareholders' funds		430,633	388,035	349,671	11.0%	11.0%
	%					
EBITDA margin		7.9%	8.8%	8.9%	-10.2%	-1.1%
Profit before taxation on total assets		10.0%	11.3%	8.8%	-11.5%	28.4%
Profit before taxation on shareholders' funds		18.9%	23.3%	22.3%	-18.9%	4.5%
Profit attributable to shareholders on average shareholders' funds		14.7%	16.3%	15.0%	-9.8%	8.7%
Total borrowings to shareholders' funds		15.2%	31.5%	64.3%	-51.7%	-51.0%
	sen					
Net earnings per share		56.26	56.12	46.82	0.2%	19.9%
Dividend per share						
- final		27.0	27.0	18.0	0.0%	50.0%
- special		10.0	–	–		
	times					
Dividend cover		2.0	2.8	2.6	-28.6%	7.7%
Net assets per share	RM	4.03	3.63	3.27	11.0%	11.0%
Turnover per RM of employment cost	RM	22.4	20.7	20.5	8.2%	1.0%
Turnover per employee	RM'000	726.3	668.2	618.3	8.7%	8.1%

Group Quarterly Performance

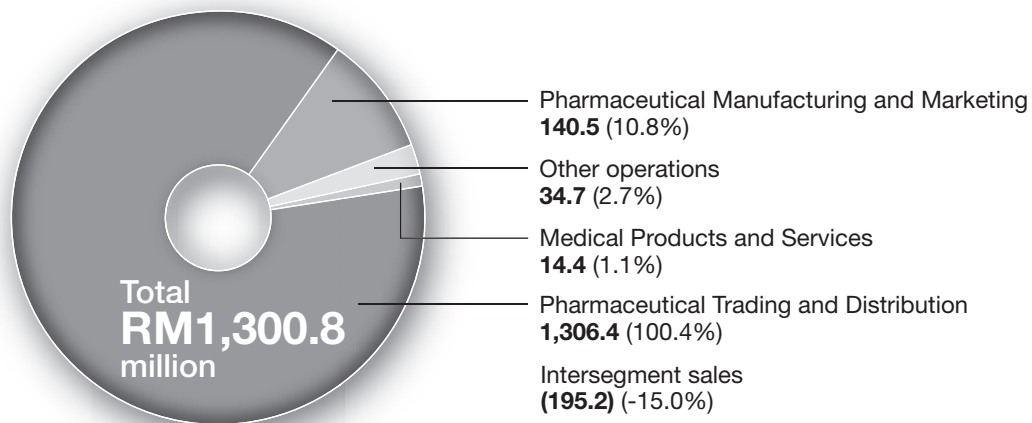
for the year ended 31 December 2009

By industry segment						
Turnover	RM'000	1st	2nd	3rd	4th	Total
Pharmaceutical Manufacturing and Marketing		32,492	46,084	32,406	29,534	140,516
Pharmaceutical Trading and Distribution		305,206	333,063	328,588	339,535	1,306,392
Medical Products and Services		6,061	510	964	6,917	14,452
Other operations		3,175	3,095	25,144	3,270	34,684
Sub-total		346,934	382,752	387,102	379,256	1,496,044
Less: Intersegment sales		(33,218)	(49,540)	(57,140)	(55,350)	(195,248)
Total		313,716	333,212	329,962	323,906	1,300,796
Profit before taxation	RM'000					
Pharmaceutical Manufacturing and Marketing		1,920	9,682	(1,226)	12,892	23,268
Pharmaceutical Trading and Distribution		15,163	15,555	11,497	15,432	57,647
Medical Products and Services		(273)	(413)	(362)	(1,281)	(2,329)
Other operations		(3,116)	(3,774)	18,743	(6,019)	5,834
Sub-total		13,694	21,050	28,652	21,024	84,420
Less: Intersegment profits		6,180	3,537	(18,931)	7,050	(2,164)
Share of results from associated company		310	(250)	(294)	(586)	(820)
Total		20,184	24,337	9,427	27,488	81,436

Group 2009 Segmental Report

TURNOVER

RM million



PROFIT BEFORE TAXATION

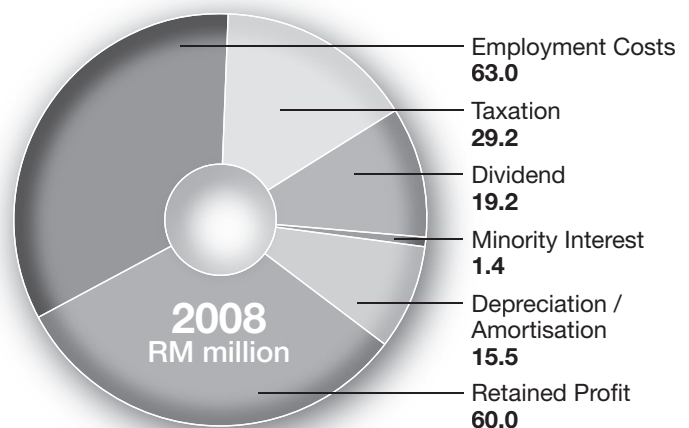
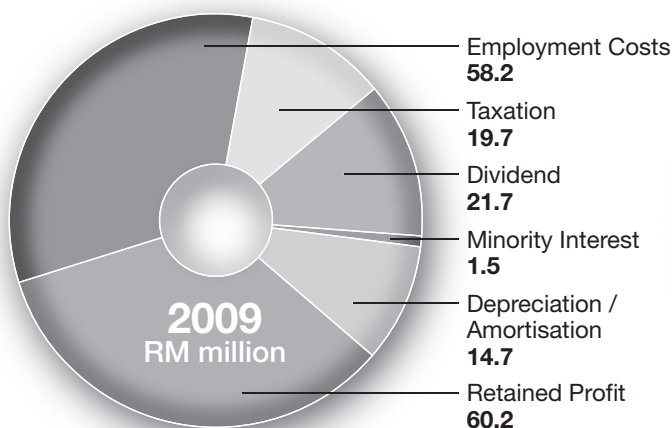
RM million

Total
RM81.4 million



Statement of Value Added

	2009 RM'000	2008 RM'000
Turnover	1,300,796	1,305,646
Purchase of goods and services	(1,128,136)	(1,109,639)
Value added by the Group of companies	172,660	196,007
Finance expenses (net)	(4,467)	(5,704)
Provision for impairment of goodwill	(1,800)	(1,000)
Provision for impairment of brand	-	(1,000)
Gain on disposal of two lots of land	7,193	-
Gain on disposal of non current assets held for sale	2,375	-
Value added available for distribution	175,961	188,303



		2009 RM'000	2008 RM'000
To employees	- Employment costs	58,197	62,971
To government	- Taxation	19,709	29,190
To capital contributors	- Dividend	21,663	19,253
	- Minority interest	1,536	1,378
Earnings available for distribution and future growth	- Depreciation / Amortisation	14,665	15,480
	- Profit for the year	60,191	60,031
		175,961	188,303

Profile of Directors



DATO' MOHAMED AZMAN BIN YAHYA
Non-Independent Non-Executive Chairman

Dato' Azman, 46, 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 various 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 Financial Reporting Foundation.

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

Mohamad, 49, a Malaysian, has served Pharmaniaga Berhad as the Managing Director since his appointment on 1 January 2007. Prior to this appointment, Mohamad was the Chief Financial Officer (CFO) 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 holds a Master of Business Administration from University of Bath, United Kingdom. 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 was 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, on 1 December 2004, he was transferred to UEM Land. He is a member of Cluster Working Group (CWG) on Healthcare Biotechnology under the Malaysian Biotechnology Corporation Sdn Bhd.



DATUK SULAIMAN BIN DAUD
Senior Independent Non-Executive Director

Datuk Sulaiman, 63, a Malaysian, is the Senior Independent Non-Executive Director of Pharmaniaga Berhad. He is also the Chairman of the Investment Committee, Nomination & Remuneration Committee, Risk Management Committee and member of the Audit Committee. He had an illustrious career with Malaysian Tobacco Company Berhad (MTC) where he ascended the corporate ladder to be its Deputy Chief Executive/Executive Director. He has been the Chairman of Bank Pertanian Malaysia for four terms; from 1998 to 2006. He has also been a Director of Malaysia National Insurance Berhad and Chairman of Ranhill Power Berhad. He is currently the Chairman of Malaysia Packaging Industry Berhad and Director of Konsortium Transnasional Berhad and Silverlake Axis Limited in Singapore. He is also a Director of UMS Link Holdings Sdn Bhd and the Chairman of UMS Link Agro Based Sdn Bhd as well as Director and Chairman of a number of private companies in Malaysia and abroad. He has served as a Board Member of University Putra Malaysia and the Chairman of the Malaysia Syria Business Council. More recently, he has been appointed as an Advisory Panel Member of the Commercialisation Committee for all public Universities in Malaysia. He has a diploma in Agriculture from the College of Agriculture (now University Putra Malaysia), graduating as the Most Outstanding Student in 1968. He has a Masters in Business Administration from IMC Buckingham and he graduated from Stanford-Insead Advanced Management Programme in Fontainebleau, France. He spends a considerable part of his time now seeking and developing business opportunities in Asean and the Middle East.

Profile of Directors (cont'd)



**EMERITUS PROF. DATO' WIRA. IR.
DR. MOHAMMAD NOOR BIN HJ. SALLEH**
Independent Non-Executive Director

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor, 62, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. He 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. He sits in the Audit Committee, Nomination & Remuneration Committee and Risk Management Committee. Emeritus Prof. Dato' Wira 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
Non-Independent Non-Executive Director

Oh Kim Sun, 61, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 12 December 2005. He is the Chairman of the Audit Committee and a member of the Investment Committee and Nomination and Remuneration 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 36 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 :

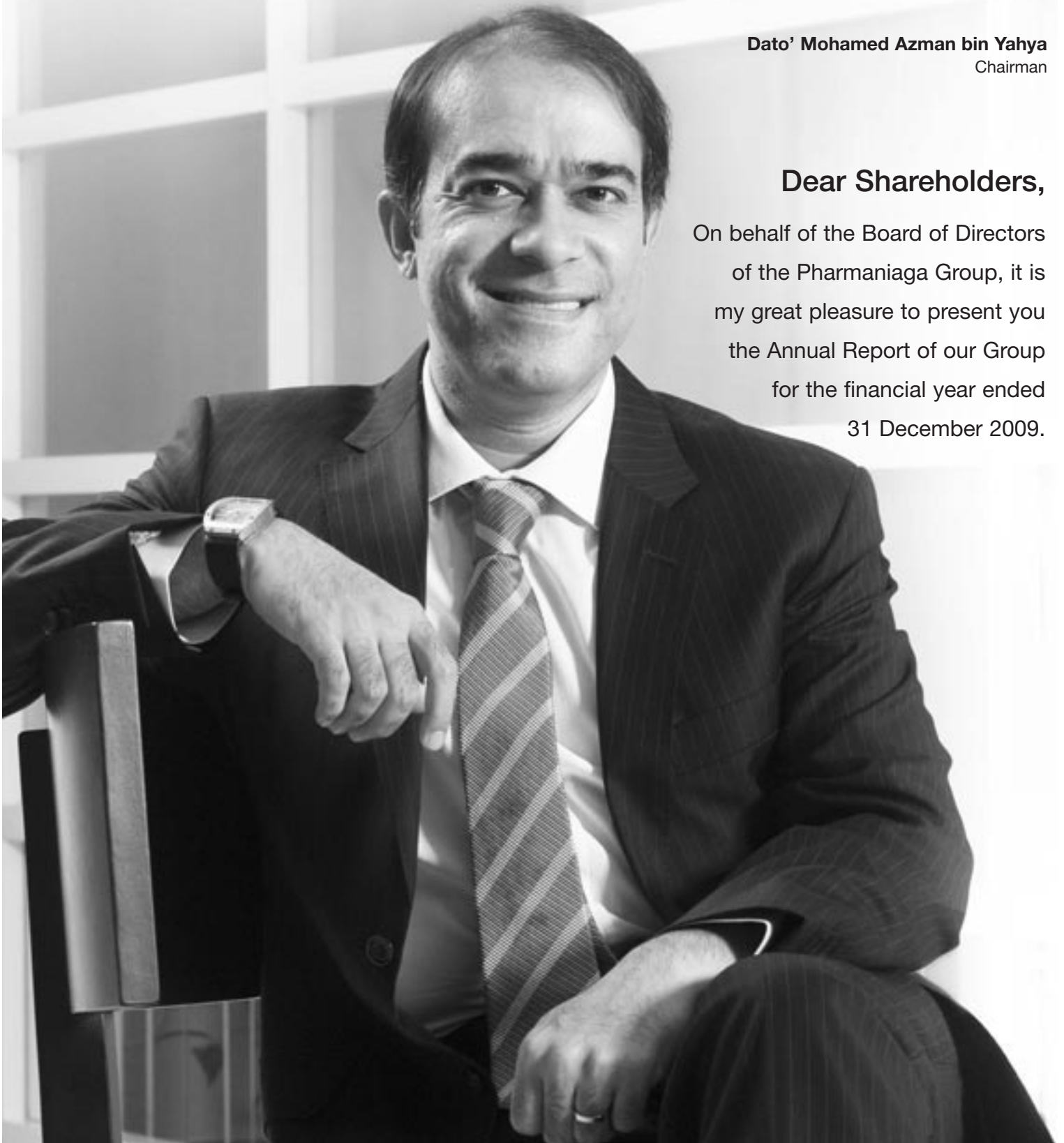
- (i) None of the Directors have any family relationship with any other Director/or major shareholder nor conflict of interest with Pharmaniaga Berhad.
- (ii) None of the Directors have been convicted of any offences for the past 10 years (other than traffic offences, if any)

Chairman's Statement

Dato' Mohamed Azman bin Yahya
Chairman

Dear Shareholders,

On behalf of the Board of Directors of the Pharmaniaga Group, it is my great pleasure to present you the Annual Report of our Group for the financial year ended 31 December 2009.



Chairman's Statement (cont'd)

This year's theme DELIVERING VALUE reflects Pharmaniaga's core focus in every aspect of our operations - value not just in terms of financial returns but more importantly in enriching lives and nurturing a better quality of living within the communities we serve.

RESULTS & PERFORMANCE OF 2009

Despite the economic slowdown, 2009 was still a period of growth for the pharmaceutical industry. This is partly contributed to the incidence of the H1N1 pandemic which resulted in strong demand for H1N1-related products for prevention and treatment, such as Oseltamivir, face-masks and to a certain extent other health supplements. Many Government initiatives were also directed towards curbing the pandemic with higher budget allocation for H1N1-related products.

Meanwhile, performance of the generics sectors remained strong. Both regionally and domestically, the growth for generics was notable. This was due largely to originator companies also repositioning themselves into the generics market to take advantage of the heightened profile and acceptance of generics.

Against this challenging global climate and increased competitiveness in the industry, Pharmaniaga maintained a favourable performance due to the execution of the strategic plans that were put in place in anticipation of the economic slowdown. For the year under review, the Group's revenue held relatively steady at RM1.3 billion. The Group's profit before taxation for the 2009 financial year was RM81.4 million, 10.1% lower than that of 2008's RM90.6 million mainly due to lower gross profit, mitigated by lower expenses and gain on disposal of assets.

DIVIDENDS

The Board of Directors recommends a final gross dividend of 27 sen, less taxation of 25% per ordinary share, maintaining the amount paid out in the previous year and a special gross dividend of 10 sen, less taxation of 25% per ordinary share for the financial year ended 31 December 2009.

REVIEW OF OPERATIONS

MANUFACTURING DIVISION

For the year under review, the manufacturing division continued its drive towards operational excellence through prudent plant utilisation, reduced wastage and cost savings. To this end the division engaged in a total of 8 Lean Six Sigma projects. At the close of the year, 5 projects were completed successfully and registered total actual savings of RM6.66 million, surpassing our targeted savings by 67.5%.

Despite the operational efficiency, on 1 March 2010, manufacturing license of the plant in Bangi was revoked due to a certain non-compliance found during routine checks by the Pharmaceutical Services Division of the Ministry of Health ("MOH"). However, Pharmaniaga managed to address the audit issues in a relatively short time and following a satisfactory follow-up audit on the Good Manufacturing Practices ("GMP") on 10 March 2010, the manufacturing license was re-issued on 15 March 2010.

Although the impact of the license revocation was minimal on our revenue since manufacturing only contributed approximately 10% of the Group's turnover based on the 2009 results and the cessation of manufacturing activities was only for a short period, the incident has humbled us and strengthened the resolve of the management and staff to work doubly hard in ensuring that the safety and quality of our facilities are constantly monitored and enhanced. We are grateful to the relevant authorities for reinstating our manufacturing license and we hope it will regain and strengthen our customers' confidence in us.

The year 2009 saw Pharmaniaga LifeScience focusing on getting the right people and systems, and conducting the necessary performance qualification activities required for submission to the Regulatory Authorities. The submission took place in October, in preparation for the series of audits that will lead to GMP certification and the approval to start commercial production of Small Volume Injectables ("SVI") in 2010. Having faced many challenging situations in the past since the plant first started, I am pleased that the SVI project is where it is today - all primed and ready to expand our manufacturing capabilities and market share locally and regionally. With confidence that the SVI will obtain its approval in 2010, we continue to strive forward, keeping abreast with up-to-date technology and enhancing our service level for the benefit of our customers.

Once up and running, the SVI plant will set Pharmaniaga apart from other generic players in the region by being able to develop, manufacture and market a range of quality generic products, offer reliable and cost competitive contract manufacturing services, as well as offer the ideal solution to customers' sourcing strategy.

COMMERCIAL DIVISION

Pharmaniaga's Commercial Division recorded RM60.4 million sales in the year under review compared to RM63.2 million in 2008. To embrace the challenges ahead, the division made a strategic move towards continued

product rationalisation, strengthened market presence via numerous marketing activities, and aggressive registration and submission initiatives in targeted ASEAN countries.

In the Domestic market, non-concession Government sales growth was significant at 13.5%. For the Private market, we enjoyed a strong 12% growth for our Cardio-Metabolic range of products. Pharmaniaga's Simvastatin (lipid lowering agent) retained its leadership in the generic statin market with sales value of RM2.5 million (IMS Q4, 2009). The Cardio-Metabolic range of products will remain our key focus and serve as one of the key drivers of Pharmaniaga's growth in both Private and Government markets.

In the International market, we recorded strong growth in Vietnam, Hong Kong and Sri Lanka. Sales in Vietnam soared to RM2.9 million in 2009 compared to RM0.55 million in 2008. A high 92% growth was recorded for Hong Kong and our sales in Sri Lanka tripled in 2009 as we reinforced our partnership and market presence in those countries.

Looking ahead to the future, the division will be focusing on more definitive therapeutic groups to be divided between the Primary Care and Specialty Care product range. The emergence of our new BioPharma business unit will also allow us to cater for specific customers.

LOGISTICS DIVISION

Sales revenue for MOH Approved Product Purchase List ("APPL") grew from RM713 million in 2008 to RM738 million in the year under review recording a 3% increase with 5% volume increase. This was mostly credited to increased demand for H1N1-related products and the DTaP/HiB Vaccine (Diphtheria, Tetanus, Acellular, Pertusis in activated Poliomyelites/Haemophilus influenzae type B conjugate vaccine).

We recorded a 28% sales increase for H1N1-related products which contributed an added RM11 million to our revenue; and realised actual sales of RM32 million for the DTaP/HiB Vaccine, which was being used in selected

Chairman's Statement (cont'd)

states by MOH. The latter exceeded our 2009 target of RM25 million. This reflects our successful partnership with MOH where we assist the Government in implementing this initiative, in which we ensure end-to-end delivery and compliance for this product. Sales for the vaccine is expected to be higher in 2010 as full implementation will roll out in all states in Malaysia starting January 2010.

Warehouse throughput rate varied according to regions. The Bukit Raja warehouse throughput rate for instance, increased 5% from RM1,016 per sq-ft in 2008 to RM1,065 per sq-ft in 2009. Sarawak also registered a marked increase of 17%, with an increase from RM319/sq-ft in 2008 to RM372/sq-ft in 2009. Juru and Sabah however showed a decrease of 8% and 2% respectively due to a drop in sales in these regions.

Order fulfillment for APPL continued to improve with Bukit Raja warehouse recording an average of 91% deliveries completed within 7 days of pick list; 7% completed within 8 to 15 days and 2% completed within 16 to 30 days. This showed our commitment to meet MOH's new requirements of 7-working-day deliveries for West Malaysia and 10-working-day deliveries to East Malaysia.

Looking ahead, we are pleased to announce the agreement in principle by MOH to extend the concession for a further 10 years, subject to terms and conditions to be negotiated over a period of six months from 1 December 2009.

As we forge ahead in delivering value to our clients we are on track in meeting new performance standards set by MOH. We are confident that we will be able to agree on new terms and conditions to secure the renewal of this concession. The Government's agreement in principle to give us the extension shows their confidence in our services, and enhances our aspirations to improve the national healthcare system for the benefit of the people.

In Indonesia, our listed unit PT Millenium Pharmacon International Tbk ("MPI") continued to perform admirably, recording revenue growth of over 15.4% from RM876 million in 2008 to RM1.01 billion last year. Profit before tax increased to RM17 million from RM14 million in 2008.

Sales were spurred by an exceptional strong demand in the Over-the-Counter sector which drove double digit market growth for the industry as a whole. Although MPI has lost Merck as a principal, sales of other principals' products are expected to grow at 20% for 2010. Moving forward, we are confident that we are able to enlist new principals that will contribute to our overall revenue.

With our current stable of 18 principals and 46 distribution points we continue to focus on growing market share and providing more effective coverage for the products of our principals. The recent implementation of Oracle Enterprise Resource Planning at MPI has helped us enhance our operational efficiency and working capital management.

Working towards our goal of doubling MPI's net profit margin in 3 years, we are committed to continue upgrading MPI's infrastructure and investments to position ourselves to meet impending market regulations such as the proposed introduction of Good Storage Practices and the regulatory requirement of a pharmacist in every branch from 2012 onwards. By remaining at the forefront of the industry and further tightening internal controls and processes, MPI will be in a better position to secure more principals and product volume and increase our Indonesian market share.

MEDICAL PRODUCTS & SERVICES DIVISION

Pharmaniaga's Medical Products & Services Division continues carrying out the business of medical equipment planning, hospital equipping and equipment supply. For the year under review, cuts in Government spending on medical equipment affected the division's revenue which decreased to RM14.4 million in 2009 compared to RM27.8 million in 2008.

The division has successfully implemented all current medical equipment supply through innovative financing schemes. Through this initiative, we secured the supply of medical and non-medical equipment to Pusat Rawatan Ar-Ridzuan, in Ipoh, Perak. In addition to this, several units of ventilators and patient monitors were also supplied to Pusat Perubatan Universiti Malaya during the H1N1 prevention programme; and we completed our supply of medical equipment for the National Heart Institute (IJN).

With the completion of these projects, the division could strongly focus on new business development activities, both in Malaysia and other selected countries. For 2010, the Medical Product & Services Division will continue to strengthen its core activities as well as the innovative financing scheme, while proactively addressing and leveraging on business opportunities both locally and internationally.

DEVELOPING OUR GREATEST ASSET

As a Group, we have always valued our talent pool and prioritise the development of our management and leadership capability, to ensure that our leaders are presented with every opportunity to realise their highest potential as they work towards achieving the Company's mission and their departments' goals. In line with this, we have enlisted some programmes that add the Workplace as an aspect we focus on, alongside the aspects of Environment, Health & Safety and Community in our Corporate Responsibility initiatives.

TOPIC (Teamwork, Open Communication, Passion for Excellence, Integrity and Honesty, and Care) remains core in our philosophy. It is stamped as the framework to establish a truly High Performance Culture ("HPC") to propel us to greater heights as we widen our business interests across the region. Through our Organisational Development Division, Pharmaniaga strives to deliver value to loyal employees by ensuring that the resources, knowledge, support and infrastructure are at necessary levels for the organisation to keep on polishing and nurturing our talent pool.

Activities are frequently organised to further drive integrity and empowerment among employees across all levels. In the year under review, 14 HPC Groups underwent a teambuilding retreat in Port Dickson to build positive working relationships among employees. At managerial level, training and courses are regularly conducted to better equip our managers with the relevant know-how to help them deliver their best for the Company. Recognising employees as individuals with unique needs,

the Sports and Recreation Club was revamped to introduce more mentally, emotionally and physically challenging activities such as Pharma Hunt and "Kembara" (group jungle trekking). We strongly encourage participation in these activities as we want our employees to gain a positive balance of work and recreation.

MINIMISING ENVIRONMENTAL IMPACT, ENHANCING SAFETY & HEALTH, AND ENRICHING THE COMMUNITY

The Group's Environment, Safety and Health ("ESH") policy supervises operational risks arising from work activities in a cost effective manner. In the year under review, we managed to reduce the amount of energy consumed by embarking on an initiative to minimise usage of air-conditioning. At the same time, an awareness campaign on water conservation was initiated to ensure water consumption would also be kept at minimum level.

In enhancing the safety and health of our employees as well as visitors to our premises, we ensure that our ESH activities meet SIRIM audit requirements by practising Environmental Aspect Impact Assessment, Hazard Identification Risk Assessment and Risk Control, and Fire Drill, among others. We also regularly organise Healthy Living awareness programmes such as Aerobic dance classes, nutrition talks by professional dieticians and health screening to assess the risks of hypertension, cholesterol and glucose among staff.

Pharmaniaga's signature outreach programme, Skuad Operasi Sihat ("SOS"), continued to provide basic medical consultation and health screening to targeted communities. In the year under review, SOS's activities were introduced across Sabah and Sarawak, to reach out to the underprivileged, rural communities. The Group also contributed material and financial support to disaster-stricken areas in the region.

With our CSR activities in place, I am confident Pharmaniaga will continue to play a committed role as a strong purveyor in enriching values and lives within the community it serves.

Chairman's Statement (cont'd)

MOVING FORWARD

The technical recession is considered to have ended in Q4 of 2009. The Government has projected a Gross Domestic Product growth of 3.7% in 2010 and 5.0% for 2011. Downside risks are still present and may delay recovery, but there are stronger positive influences to support these projections.

For the pharmaceutical industry, the future is expected to be more challenging, especially in the generics market where cost is becoming more of a factor for consumers. To combat the competition of cheaper generics from India and other similar sources, multinational pharmaceutical corporations are also looking into various ways to reduce their cost to remain competitive. Therefore, despite an anticipated strong growth of generics, we need to be highly cost effective and deliver quality at the same time to remain competitive.

We continue to look beyond borders to regional markets and aim to escalate our product registration initiatives in key markets. For 2010 onwards, we are targeting three major ASEAN markets namely, Thailand, Philippines and Indonesia; and gearing ourselves for other markets as well.

For the years ahead, Pharmaniaga has firm strategies in place to continue delivering value and heightening our visibility regionally. A strong focus on products as well as market segments will allow us to leverage on our capabilities and strengths as we enter a more competitive landscape.

IN APPRECIATION

On behalf of the Board of Directors, I would like to extend a note of heartfelt thanks to our former Board members for their invaluable contributions. They are YB Senator Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin, YBhg Dato' Ahmad Pardas bin Senin, and of particular mention, Allahyarham En. Ismael Fariz bin Ali whose untimely demise is a loss to the corporate world. I had the honour and the pleasure to work with Allahyarham and will miss his generous nature and intuitive insights. My condolence is extended to Allahyarham's family. I pray that they are blessed with great patience during these difficult times.

I also wish to express my deepest appreciation to my esteemed colleagues on the Board who have offered invaluable services and assistance unreservedly throughout the year.

Last but not least, I thank the Government and regulatory authorities, our business partners, clients, bankers, suppliers, the media 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, I thank you - all our shareholders for your continued support, confidence and loyalty to Pharmaniaga.

We shall continue to strive to deliver value to all.



Azman Yahya
Chairman

Statement on Corporate Governance

INTRODUCTION

The Malaysian Code on Corporate Governance (“the Code”) sets out the principles and best practices on structures and processes used to direct and manage the business and affairs of the Company towards enhancing corporate accountability with the objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

Corporate Governance is an evolving ideal, a process of continuous improvement that any entity should focus on as the foundation and framework to manage the business of the organisation. The Board in recognising this, is committed to upholding its application and practice in the Company in ensuring the values to its shareholders and stakeholders are met.

The Board is pleased to report to the shareholders on the manner Pharmaniaga has strengthened its application of the principles of corporate governance and adoption of the corporate governance best practices laid down in the Code.

1. BOARD OF DIRECTORS

The Board, with its collective and overall responsibility in leading and directing Pharmaniaga’s strategic affairs, has the ultimate responsibility for corporate governance and plays a key role in charting the vision, strategic direction, development and control of Pharmaniaga Group as well as overseeing the investments of the Company.

The Board believes that effective corporate governance is premised on three important cornerstones namely, independence, accountability and transparency.

Composition of the Board

The Board of Directors of Pharmaniaga presently consists of five (5) members comprising one (1) Non Independent Non Executive Chairman, one (1) Executive Director designated as the Managing Director, and three (3) Independent Non-Executive

Directors. With the formation of the Board Advisory Panel, the Board believes that the composition of the Board has the right blend of skills, knowledge and business experience around the Board table, given the size and nature of the business of Pharmaniaga. A brief profile of each Director is set out on pages 16 to 18 of the Annual Report.

Process of Appointment to the Board

Pharmaniaga has in place formal and transparent procedures for the appointment of new Directors. The Nomination and Remuneration Committee scrutinises the sourcing and nomination of suitable candidates for the appointment as Director in Pharmaniaga and its subsidiary companies. This Committee will ensure the selection of the Board members with the right skill set, expertise and industry knowledge thus strengthening the composition of the Board and contributing significantly to the effectiveness of the Board.

Statement on Corporate Governance (cont'd)

Roles and Responsibilities

The roles and responsibilities of the Chairman of the Board and the Managing Director are distinct and separated. The Chairman is responsible for the conduct of the Board's discussions and that these are conducted in such a way that all views are taken into account before a decision is made. The Managing Director has the general responsibility for running the business on a day-to-day basis thus ensuring a balance of power and authority so as to provide safeguard against the exercise of unfettered powers in decision making.

The Board's principal focus is the overall strategic direction, development and control of Pharmaniaga Group. As such, the Board approves Pharmaniaga Group's strategic plan and its annual budget; and throughout the year, reviews the performance of the operating subsidiaries against their budgets and targets. The Managing Director is responsible for the implementation of the broad policies approved by the Board and he is obliged to report and discuss at the Board Meetings all material matters currently or potentially affecting Pharmaniaga Group and its performance, including all strategic projects and regulatory developments.

Accountability is part and parcel of governance in Pharmaniaga - whilst the Board is accountable to the shareholders, Management is accountable to the Board. The Board ensures that the Management acts in the best interest of the Company and its shareholders by working to enhance the Company's performance.

Directors' Code of Conduct

In performance of the Board duties, the Board also observes a Directors' Code of Conduct which continues to govern the standard ethics and good conduct expected from the Directors. The Directors' Code of Conduct, which forms part of the Board

Policy Manual sets out the performance of Directors' duties and conduct in relation to Corporate Governance, its relationship with the shareholders, employees, creditors and customers as well as its social responsibilities.

Whistle Blower Policy

It is the Board's belief that having a whistle blower policy in place will increase investor confidence in the Company. A whistle blower policy strengthens, supports good management and at the same time demonstrates accountability, good risk management and sound corporate governance practices.

As such, Whistle Blower Policy was established and approved by the Board in 2008 to provide a platform and to act as a mechanism for parties to channel their complaints or to provide information on fraud, wrongdoings or non-compliance to any rules/procedures by the employee or management of the Company. The policy outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance and allows the whistle-blower the opportunity to raise a concern outside this management line and in confidence. The identity of the whistle blower is kept confidential and protection is accorded to the whistle blower against any form of reprisal or retribution. Any concerns raised will be investigated and a report and update is provided to the Board.

Operation of the Board

The Board has established five (5) Board Committees. The Board has entrusted specific responsibilities to the Board Committees, which operate within clearly defined written terms of references on which the Committees deliberate the issues on a broad and in depth basis before putting up any recommendation to the Board.

The Composition of the Board Committees and the attendance of members at the Board Committee meetings are listed as follows:-

Board Advisory Panel

MEMBERS	MEETING ATTENDANCE
Tan Sri Musa bin Mohamad	2/2
Dr. Pierro L. Oliaro	0/2
Prof. Dr. V Navaratnam	2/2
Dr. Yves Champey	2/2

Audit Committee

MEMBERS	MEETING ATTENDANCE
Oh Kim Sun (<i>Appointed as Chairman on 8/5/09</i>)	3/3
Datuk Sulaiman bin Daud	5/5
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh	5/5

Risk Management Committee

MEMBERS	MEETING ATTENDANCE
Datuk Sulaiman bin Daud	2/2
Mohamad bin Abdullah	2/2
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh	2/2
Stephen Sze Kwong Yew	2/2
Raja Nazim bin Raja Nazuddin	1/1
Errman Zuhady bin Zainal	2/2

Nomination & Remuneration Committee

MEMBERS	MEETING ATTENDANCE
Datuk Sulaiman bin Daud	7/7
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh	7/7
Oh Kim Sun	2/2

Investment Committee

MEMBERS	MEETING ATTENDANCE
Datuk Sulaiman bin Daud	4/4
Oh Kim Sun	4/4
Mohamad bin Abdullah	3/4

Statement on Corporate Governance (cont'd)

The salient terms of reference of the Board Committees are as follows:

Board Advisory Panel

- To review and recommend to the Management and Board the direction and priorities of the pharmaceutical and biotechnology industry.
- 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.

Audit Committee

- The terms of reference of the Audit Committee are detailed out under the Audit Committee Report.

Risk Management Committee

- 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.

Nomination & Remuneration Committee

- 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.
- 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.

- 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.
- To recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- 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.
- 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.
- To identify and recommend Senior Management position at Grade UT2 and above, and its terms and conditions, for the Board's approval.
- To consider the following when recommending candidates for directorship:
 - skills, knowledge, expertise and experience
 - professionalism
 - integrity
 - ability to discharge functions/responsibilities
- To 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.
- To 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.

- To represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior staff.
- To review the history of and proposals for the remuneration package of each of the Company's committees.

Investment Committee

- 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 and 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.

The Board meetings

The Board meetings are scheduled in advance and during the Financial Year ended 31 December 2009, the Board held four (4) regular meetings and four (4) Special Board meetings, as detailed below:

Date of Board Meetings	Attendance by Independent Directors	Attendance by Non Independent Director	Total Numbers
26/02/09	4/4	3/4	7/8
12/03/09 (Special)	4/4	3/4	7/8
08/05/09	3/3	4/4	7/7
26/05/09 (Special)	3/3	3/4	6/7
21/08/09	3/3	2/3	5/6
30/10/09 (Special)	3/3	2/2	5/5
13/11/09	3/3	2/2	5/5
14/12/09 (Special)	3/3	2/2	5/5

Statement on Corporate Governance (cont'd)

Attendance Details of Board members

Directors	Type	Meetings Attendance
Dato' Mohamed Azman bin Yahya	Non-Independent Non-Executive Chairman	8/8
Mohamad bin Abdullah	Managing Director	8/8
Dato' Ahmad Pardas bin Senin (Resigned on 02/06/09)	Non-Independent Non-Executive Director	3/4
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin (Resigned on 24/04/09)	Independent Non-Executive Director	2/2
Allahyarham Ismael Fariz bin Ali (Resigned on 16/10/09)	Non-Independent Non-Executive Director	2/5
Datuk Sulaiman bin Daud	Senior Independent Non-Executive Director	8/8
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Haji Salleh	Independent Non-Executive Director	8/8
Oh Kim Sun	Independent Non-Executive Director	8/8

To assist the Board in retaining full and effective control of the Company, the Board deliberates on a formal agenda and schedule matters arising for approval or notation during these Board meetings.

During the financial year ended 31 December 2009, the Board reviewed, considered and approved, amongst other matters, the following:

- Pharmaniaga Group's strategic and business plans
- Financial results and performance of Pharmaniaga Group
- Quarterly Operating Reports
- Directors' Report and the Audited Financial Statements
- Annual Report Disclosure for inclusion in the Annual Report
- Budgets, Corporate Scorecard and Dividends

The Agenda for each Board meeting, together with detailed Board papers and supporting documents are circulated to all Board members for their prior review in

advance of the meeting dates, to ensure that they are fully apprised on matters or key issues affecting the Company as well as to enable the Directors to make well-informed decisions on matters arising at the Board meetings. Agenda items for which the resolution is sought are identified and clearly stipulated in the Board paper to ensure that matters are discussed in structured manner. It has always been the Company's practice that a standardised format of Board paper is circulated for ease of reference during meetings.

The Chairman of the Board chairs the Board meetings while the Managing Director leads the presentation and provides explanation on the Board papers and reports. Senior Management staff may be invited to attend the Board and Board Committee meetings to advise and provide the Board and Board Committee members with the presentations, detailed explanation and clarification on relevant agenda items that have been tabled to the Board to enable them to arrive at a considered decision.

In relation to the minutes of Board meetings, the Code requires the Board to properly record decisions made as well as all issues discussed in arriving at the decisions. Minutes of every Board meeting are circulated to each Director for their perusal prior confirmation of the Minutes at the following Board meeting. The minutes are then confirmed by the Board and signed as correct records of proceedings thereat by the Chairman of the meeting in accordance with the provision of Section 156 of the Companies Act, 1965.

Supply of Information to the Board

In furtherance of their duties, every member of the Board has full, unrestricted and timely access to all information pertaining to the Company's business affairs, whether as a full Board or in their individual capacity, as the decision making process is highly contingent on the strength of information furnished.

The Company Secretaries attend all Board meetings and are responsible for ensuring the Board procedures as well as statutory and regulatory requirements relating to the duties and responsibilities of the Directors are complied with. In addition, the Directors are also empowered to seek independent external professional advice at the expense of the Company, should they consider it necessary in their course of duties.

Board Balance and Independence

The requirement of the Code for a Board balance is fulfilled with Independent Directors forming more than one third of the Board. The current Board consists of three (3) Independent Non Executive Directors who are independent of Management and free from any business relationships that could materially interfere with exercise of their independent judgment.

The presence of Independent Directors assures an additional element of balance to the Board as they provide unbiased and independent views, advice and judgment to all Board deliberations. 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.

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.

Performance indicators, on which the Board Effectiveness is evaluated, include the Board's composition, administration, accountability and responsibility and its conduct. Performance indicators for individual Directors include their interactive contributions, understanding of their roles and quality of input.

Pharmaniaga's BEA has been instrumental in drawing the Board's attention to areas that need to be addressed.

Continuous Training of Directors

The Board believes that continuous training for Directors is vital to the Board members to gain insight into the pharmaceutical industry, state of economy, technology advances, regulatory updates and management strategies in order to enhance the Board's skills and knowledge that enable them to discharge their duties effectively. As such, the Directors are continuously encouraged to attend various training programmes and seminars to ensure that they are kept abreast with various issues pertaining to the constantly changing environment within which the business of the Group operates, particularly in areas of corporate governance and regulatory compliance.

All Directors have completed the Mandatory Accreditation Programme ("MAP") and fulfilled the Continuing Education Programme ("CEP") requirements as prescribed by the Main Market Listing Requirements of Bursa Malaysia.

Statement on Corporate Governance (cont'd)

During the year, the Directors have attended trainings and courses as listed below :

Corporate Governance	• The Role of Market Players in Influencing Good Corporate Governance Practices Amongst PLCs by Minority Shareholder Watchdog Group ("MSWG") • Corporate Governance Guide : Towards Boardroom Excellence • Board Excellence Forum : Integrating Corporate Governance & Business Strategy in the Boardroom
Investor Relations	• Investor Relations : Managing Strategic Issues In A Challenging Environment
Leadership	• Malaysian Director's Academy ("MINDA") Luncheon Talk 2008 : Chairman's Forum • High Performance Culture ("HPC") Workshop for Senior Management • IMD Business Forum - Leading Change in Times • Exclusive Power Talk on Transformational Leadership
Internal Audit	• Internal Auditing, Assurance and Value Creation by The Institute of Internal Auditors Malaysia ("IIAM")
Risk Management	• Non-Executive Directors Development Series ("NEDDS"): Is it worth the risk ?
Financial	• FRS 139 Briefing to the Board of Directors by Ernst & Young

Re-appointment & Re-election of Directors

The Articles of Association of Pharmaniaga Berhad provides 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 states that one-third of the Directors retire from office at each AGM 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

Directors of the Company do not hold more than ten (10) directorships in public listed companies and not more than fifteen (15) in non-public listed companies, as required by the Main Market Listing Requirements. This ensures the Directors' commitment, resources and focus for an effective input to the Board.

Directors' Remuneration

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.

The Non-Executive Directors' remuneration comprises annual fees that reflect their expected roles and responsibilities. In addition, Non Executive members of the Board and Board Committees are paid meeting allowance for each meeting they attended. The Directors' fees are approved annually by the shareholders at the AGM by the shareholders.

Further details of Directors' remuneration are set out below and in Note 6 at page 83 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 Managing Director 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 with the Company. As a director to the Board, the Managing Director shall retire from the Board at least once in 3 years but shall be eligible for re-election.

Disclosure on Directors' Remuneration

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2009 are as follows:

Directors	Basic Salaries, Bonus & EPF (RM)	Fees (RM)	Allowance & other emoluments (RM)	Sub-Total (RM)	Perquisites (RM)	Benefits-in-kind (RM)	Total (RM)
Executive Director	636,403	–	34,800	671,203	69,152	7,800	748,155
Non-Executive Directors	–	292,500	88,800	381,300	10,722	7,200	399,222
Total	636,403	292,500	123,600	1,052,503	79,874	15,000	1,147,377

Statement on Corporate Governance (cont'd)

The remuneration paid to Directors during the year, analysed into bands of RM50,000, are as follows:

Remuneration Band	No. of Directors	
	Executive	Non-Executive
RM50,000 and below	–	2
RM50,001 - RM100,000	–	3
RM100,001- RM150,000	–	1
RM700,000 - RM750,000	1	–

Note: None of the Directors' remuneration falls within the RM150,001 - RM700,000 band.

2. SHAREHOLDERS

Pharmaniaga is committed to maintaining a constructive relationship with its shareholders, pursuing its on-going commitment to sustain the highest standards of corporate governance practices throughout the Group with full appreciation of its impact on long term corporate performance and optimal shareholder value.

Investor Relations

In this regard, Pharmaniaga has developed and maintained an Investor Relations Policy to ensure a high level of quality and service is achieved when information is provided to investors and stakeholders.

Annual Report

A key channel of communication used to provide its shareholders and investors with information which include its business, financials and other key activities is the Annual Report of the Company, contents of which are continuously enhanced to take into account developments amongst others in corporate governance practices.

Apart from the mandatory requirement to make public announcements via Bursa Malaysia, Pharmaniaga also disseminates information on corporate events and business as well as any significant developments of Pharmaniaga Group through press releases.

Further, the timely releases of financial results, in line with Main Market Listing Requirements Bursa Malaysia provide shareholders with an overview of Pharmaniaga Group's performance and operations.

Besides the key channels of communication through the Annual Report, general meetings and announcements to Bursa Malaysia as well as analyst and media briefings, there is also continuous effort to enhance the Company's website at www.pharmaniaga.com.

Information that is disseminated to the investment community conforms to Bursa Malaysia disclosure rules and regulations. While the Company endeavours to provide as much information as possible to its shareholders, it must be wary of the legal and regulatory framework governing the release of material and price sensitive information. Therefore, care has been taken to ensure that any information that may be regarded as undisclosed and market sensitive information such as corporate proposals, financial results and other material information about Pharmaniaga Group will not be given to any shareholder or shareholder group without first making an official announcement to Bursa Malaysia for public release.

General Meeting

The Annual General Meeting (“AGM”) is the principal avenue for shareholders to communicate and engage in dialogue with the Board and Management of Pharmaniaga. At the AGM, the highlights of the Company’s technical and financial performance are presented by the Chairman and Managing Director via visual presentation.

Constructive dialogue between the Board and the shareholders are encouraged whereby at the AGM, shareholders are given the opportunity to raise questions on issues pertaining to the Company’s Financial and Operational performance.

At the AGM, the shareholders can exercise their voting rights and the meeting is convened in strict compliance with the laws and procedures of general meeting. Separate resolutions are proposed for separate motions and the Chairman will declare the outcome of each resolution after proposal and secondment are done by the shareholders. Shareholders are also given the opportunity to put forward their questions on the proposed resolutions and on the Group’s operations. The Chairman will provide sufficient time for shareholders questions on matters pertaining to the Company’s performance and would respond to the shareholders with regard to their concerns and questions raised.

3. ACCOUNTABILITY & AUDIT

Financial Reporting

The Board is committed to providing and presenting a balanced, insightful and timely assessment of the Group’s financial position and prospects by ensuring quality financial reporting to its stakeholders, in particular, shareholders, investors and the regulatory authorities. They are kept abreast of the Group’s financial position during the financial year, through the annual financial statements, quarterly financial results announcement and press releases.

Quarterly financial results and annual financial statements are reviewed and deliberated upon by the Audit Committee to ensure the quality of financial reporting and adequacy of such information, prior to submission to the Board for its approval. The Audit Committee also reviews the appropriateness of the Company’s accounting policies and the changes to these policies.

The Directors are responsible for the preparation and fair presentation of the financial statements for each financial year in accordance with the Financial Reporting Standards and the Companies Act, 1965. The Statement of Directors’ Responsibility in relation to the Financial Statements is presented on the appropriate section of this Annual Report.

Related Party Transaction

Pharmaniaga has in place a procedure to ensure the Company meets its obligations under the Main Market Listing Requirements of Bursa Malaysia relating to related party transactions.

A list of related parties within Pharmaniaga Group is disseminated to the various business units to determine the number and type of related party transactions. All related party transactions are presented to the Audit Committee for their review and monitoring on a quarterly basis. The report and the list of the related parties of Pharmaniaga Group for year under review are then escalated to the Board for their notation.

A list of significant related party transactions is set out in Note 35 to the Financial Statements section of this Annual Report.

Internal Control

The Board acknowledges that they are responsible for maintaining a sound system of internal control to safeguard shareholders’ investment and the Company’s assets as required by the Code. Pharmaniaga adheres to Bursa Malaysia Securities Berhad guidelines for Directors of Public Listed Companies, as guidance for compliance with these requirements.

Statement on Corporate Governance (cont'd)

Information on the Group's Internal Control pursuant to paragraph Rule 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia is presented in the Statement of Internal Control set out on page 42.

Relationship with External Auditors

The Board maintains a transparent and professional relationship with the Auditors, through the Audit Committee, conferred with the authority to directly liaise with both the External and Internal Auditors. The Board, through the Audit Committee, seeks the External Auditors' professional advice in ensuring compliance with the provisions of the Companies Act, 1965 and applicable Reporting Standards in Malaysia.

The appointment of the External Auditors is subject to the approval of shareholders at the Annual General Meeting, whilst the Board determines their remuneration. It is a policy of the Audit Committee that it meets with the External Auditors at least twice a year to discuss their audit plan, audit findings and the Company's financial statements as well as any other issues without any Executive Directors and the management present.

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 2009 are as follows:

External Auditor	Total Paid (RM)
PricewaterhouseCoopers	136,500
Ernst & Young Tax Consultants Sdn Bhd	54,640
Purwantono, Sarwoko, Sandjaja Consultants for Representative Office of Pharmaniaga Manufacturing Berhad in Jakarta, Indonesia	36,030
Total	227,170

RESPONSIBILITY STATEMENT IN RESPECT OF THE FINANCIAL YEAR UNDER REVIEW

(Pursuant to paragraph 15.26 (a) of the Main Market Listing Requirements Bursa Malaysia)

The Board is fully accountable that the financial statements are prepared in accordance with the Companies Act 1965 and the applicable approved accounting standards set by Malaysian Accounting Standards Board so as to present a true and fair view, balanced and understandable assessment of the Group's financial position and prospects. In this Annual Report, an assessment is provided in the Directors' Report of the Audited Accounts.

The Audit Committee reviews the statutory compliance and scrutinises the financial aspects of the Audited Financial Statements prior to full deliberation at the Board level.

STATEMENT OF COMPLIANCE WITH THE 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 (11) (a) and (b) Chapter 9 of the Main Market Listing Requirements Bursa Malaysia.

AUDIT COMMITTEE REPORT

The Board of Directors of Pharmaniaga Berhad is pleased to present the report on the Audit Committee of the Board for the year ended 31 December 2009.

Membership and Meeting

The Audit Committee presently comprises three (3) members of the Board who are all Independent Non-Executive Directors. This is in line with the revised Corporate Governance Code ("Code") and also in accordance with Paragraph 15.10(1) (b) of the Main Market Listing Requirements of Bursa Malaysia which requires that all members of the Committee to be Non-Executive Director, with majority of them being independent directors.

The members of the Audit Committee are:

- Oh Kim Sun (Chairman) - appointed on 8 May 2009
- Datuk Sulaiman bin Daud
- Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh

The Chairman of the Audit Committee, Oh Kim Sun, is an Independent Non-Executive Director and as such meets the requirement of Paragraph 15.11 of Main Market Listing Requirements of Bursa Malaysia. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA). In this respect, the audit Committee of Pharmaniaga is in compliance with Paragraph 15.10 (1) (c) of Main Market Listing Requirements of Bursa Malaysia.

During the financial year under review, the Committee held five (5) meetings. The meetings were appropriately structured through the use of agenda, which were distributed to members with sufficient notification. The details of attendance of each member at the Audit Committee meetings held during the financial year are stated below:

Directors	Status of Directorship	Meetings Attended	%
Oh Kim Sun	Independent Non-Executive Director	3/3	100
Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin (Resigned on 24 April 2009)	Independent Non-Executive Director	2/2	100
Datuk Sulaiman bin Daud	Independent Non-Executive Director	5/5	100
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh	Independent Non-Executive Director	5/5	100

The Managing Director and other senior management were also in attendance by invitation. Representatives of the External Auditors, Messrs. PricewaterhouseCoopers and the Head of Group Internal Audit also attended the meetings upon invitation by the Audit Committee.

Statement on Corporate Governance (cont'd)

TERMS OF REFERENCE

In performing its duties and discharging its responsibilities, the Audit Committee is guided by the Terms of Reference as follows:

Composition of the Audit Committee

The Audit Committee shall be appointed by the Board of Directors from amongst its numbers, which fulfils the following requirements:

- a. The Audit Committee must be composed of no fewer than three (3) members;
- b. A majority of the Audit Committee must be independent Directors;
- c. At least one (1) member of the Audit Committee must be a member of the Malaysian Institute of Accountants (MIA) or any equivalent qualifications recognised by the MIA; and
- d. No alternate director shall be appointed as a member of the Audit Committee.

The members of the Audit Committee shall elect a Chairman from among themselves who will be an Independent Director. All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of Pharmaniaga Berhad. 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 three (3) years to determine whether the Audit Committee has carried out its duties in accordance with its terms of reference.

Secretary of the Audit Committee

The Company Secretary or in the absence of the Company Secretary, any person appointed by the Audit Committee.

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.
- 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.

Duties & Responsibilities of the Audit Committee

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

- 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.
- 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.
- 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.
- 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.

- Review the external auditor's management letter and management's response.
- Review the Internal Audit 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.
- 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.
- Review and approve the Annual Internal Audit Plan and ensure adequate risk and governance coverage.
- Review the results of the internal audit process and where necessary, ensure that appropriate actions are taken on the recommendations made by the internal auditor.
- Review the terms of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
- Engagements:
 - Meet external auditors at least twice a year without senior management presence.
 - Engage continuously with CEO, CFO and Head of Internal Audit.
- Consider other topics as defined by the Board.

Powers of the Audit Committee

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

- Have explicit authority to investigate any matter within its terms of reference;
- Have the resources required to perform its duties;
- Have full, free and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group;
- 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;
- Have authority 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;
- Have discretion to invite other Directors and employees of the Company to any particular Audit Committee meeting with specific relevance;
- Have authority 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 DURING THE FINANCIAL YEAR

During the financial year, the Committee carried out its duties in accordance with its terms of reference.

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.

Statement on Corporate Governance (cont'd)

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

- provisions of the Companies Act 1965
- Main Market Listing Requirements of Bursa Malaysia
- 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 judgment of the items that may affect the financial statements.

Release of Quarterly Financial Results in 2009

	Date of Issue/Release	No of Days before the Deadline	Bursa Securities Deadline
Annual Report 2009			
2009 Quarterly Results			
1Q2009	8 May 2009	21	29 May 2009
2Q2009	21 August 2009	9	30 August 2009
3Q2009	13 November 2009	17	30 November 2009
4Q2009	19 February 2010	9	28 February 2010

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 2009 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 were tabled during the year, audit recommendations made and management's response to those recommendations. Where appropriate, the Committee had 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.

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.

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.

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.

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 internal audit function of Pharmaniaga Group is carried out by the GIA of UEM Group Management Sdn Bhd. GIA provides independent, objective assurance on areas of operations reviewed, and advice on best practices that will improve and add value to the Pharmaniaga Group.

In the year under review, GIA 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, GIA 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.

Detailed audit reports by GIA, 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 Internal Control

BOARD RESPONSIBILITY

The Board of Directors (“Board”) is responsible for the adequacy and effectiveness of the Pharmaniaga Group’s (“the Group”) system of internal controls. However, such a system is designed to manage the Group’s key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of 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 investment 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.

A formal Management Control Policy (“MCP”) spells out the internal control responsibilities of the Audit Committee, the Internal Audit function and Operating Management. The MCP was 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 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") meet 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. In the year under review, risk assessment reports as well as the minutes of RMC meetings including overseas subsidiary were presented to the Board as a whole at Board meetings.

The internal auditors were 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, the RMC had undertaken a more detailed approach towards assessing risks relating to doing business local and overseas. The Investment Committee's responsibility is to assist the Board in fulfilling its obligation by receiving reports and making recommendations to, or where authorised decision on behalf of the Board in respect of any investment.

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 authorisation 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.

Policies and procedures for all key processes are clearly documented and reviewed at regular intervals. Certain subsidiaries 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 bodies for the various certifications and licences obtained by the Group companies, such as SIRIM, the National Pharmaceutical Control Bureau and certain multinational companies' evaluation committee. 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") parameters has been implemented. In the year under review, the PMS was driven by the Group's five-point focus value creation ("PEPSI") to support business unit and corporate strategies;

- 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 Group's strategy into measurable operational terms and was used as a business unit and corporate performance measurement tool. This system has been implemented on employees at the executive and managerial level.

Moving forward 2010, the PMS contents have been revised to reflect the Group's latest strategy and corporate performance measurements. The Group now adopts the Balance Scorecard quadrants ("FCIO") to measure the KPIs achievements;

Statement on Internal Control (cont'd)

- Financial
- Customer
- Internal Business Process
- Organisational Learning & Growth

PMS online was introduced in 2009 in line with the Group HR initiatives, and will continue to be used as a tool to ensure the efficiency and effectiveness of the PMS process. 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.

Staff Recruitment and Termination

There are proper guidelines within the Group for hiring and termination of staff, formal training programmes for staff, mid-year or annual performance appraisals and other relevant procedures in place to ensure that employees are competent and adequately trained in carrying out their duties and responsibilities.

Standard of Ethical Code of Conduct

Staff handbook containing the human resource policies and code of conduct is 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. Strategic concerns are deliberated. Strategies and action plans are then reviewed and mandates are given to management by the Board to carry out the agreed strategies and action plans.

Based on strategies identified, the Annual Operating and Five-Year Business Plans together with Key Performance Indicators ("KPIs") were drawn up and approved by the Board on 30 October 2009. 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 Annual Operating and Five - Year 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 among the preferred brands in healthcare in the markets the Group choose to serve. 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.

Regular Monthly Reporting

Operational review meetings are conducted on a monthly basis to review and monitor matters pertaining to the business operations. The review is 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 serves 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 would 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.

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 account the Group's objectives and policies in the context of evolving business and regulatory environment. Internal audits 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 Internal Audit 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 Auditors, the External Auditors and other outside advisors have been satisfactorily resolved by the Management.

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.

CONCLUSIONS

For the financial year under review, some weaknesses in internal control were detected. However, after due and careful inquiry and based on the information and assurance provided, the Board is satisfied that there were no material losses as a result of weaknesses in the system of internal control, that would require separate disclosure in the Group's Annual Report. Nevertheless, for areas requiring attention, measures are being taken to ensure ongoing adequacy and effectiveness of internal controls and to safeguard shareholders' investments and the Group's assets.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

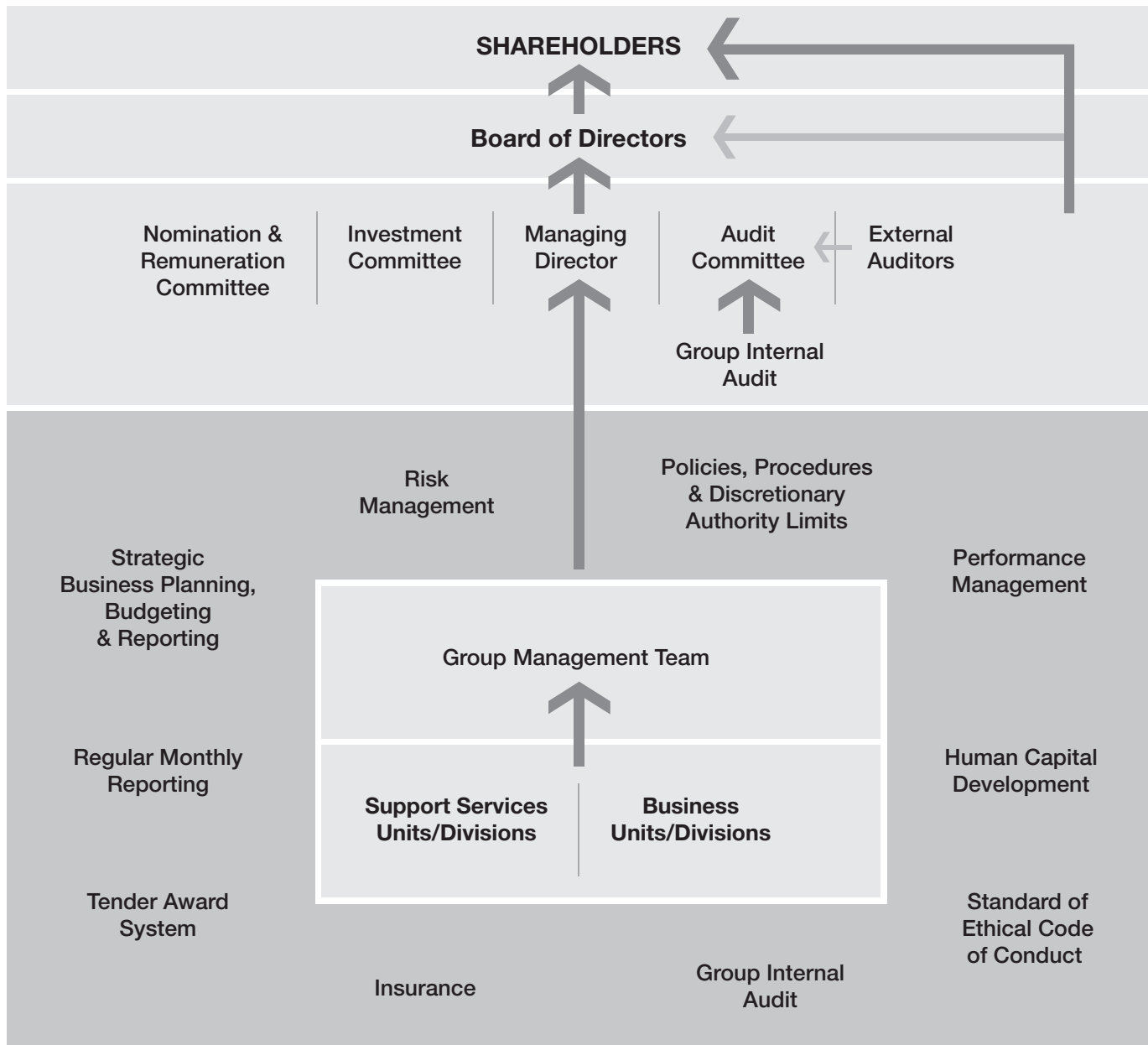
The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Company for the year ended 31 December 2009 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

Noted on the subsequent event of financial year end, there were some weaknesses in processes of plant, which as a result, the operations had been suspended and license had been revoked.

This statement is made in accordance with the resolution of the Board of Directors dated 22 March 2010.

Statement on Internal Control (cont'd)

INTERNAL CONTROL FRAMEWORK OF PHARMANIAGA GROUP



Management Team
Key Internal Control Element

The Group's internal control framework shown above signifies the accountability and reporting relationship between the Shareholders, the Board, the Audit Committee, Auditors and Management

REPORT ON CORPORATE RISK MANAGEMENT

OVERALL RISK MANAGEMENT FRAMEWORK

The Pharmaniaga Group's risk management infrastructure provides clear accountability and responsibility for the risk management process which sets out the principal risk management and control responsibilities.

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

- Datuk Sulaiman bin Daud (Chairman/Senior Independent Non-Executive Director)
- Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj Salleh (Independent Non-Executive Director)
- Mohamad bin Abdullah (Deputy Chairman/Managing Director)

The Board is ultimately responsible for the management of risks. The Board, through the RMC, maintains overall responsibility for risk oversight within the Pharmaniaga Group. The RMC reports directly to the Board. The risk appetite statement and level of risk tolerance are set in line with the Group's strategic direction and business objectives in the annual Business Plans approved by the Board.

The Corporate Strategy Business Development unit provides support to the Risk Management Work Group Committee ("RMWGC") and is responsible for ensuring the risk policies are implemented and complied with. They are also responsible for the identification, measurement and monitoring of risks.

The business units, being the first line of defense against risks, are responsible for identifying, mitigating and managing risks within their businesses. These units are to ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

The RMC, supported by the Group Internal Audit from UEM Group Management Services Sdn Bhd provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

It is the Group's policy that all risk management policies are subject to more frequent reviews to ensure that they remain applicable and effective in managing the associated risks brought about by the constant changes in the market and regulatory environments. Appropriate changes are also made to the Group's risk reporting framework to ensure adequate and timely risk reporting to the RMC for decision making.

MEETINGS

The RMC had two meetings during the financial year ended 31 December 2009. Representatives from Group Internal Audit from UEM Group Management Services Sdn Bhd also attended the meeting 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 ("RMF")

Compliance and Performance Objectives

The Group's 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.

Statement on Internal Control (cont'd)

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 RMF has the following key attributes:

- **Risk Governance and Strategy**

The risk governance and strategy are established within the Corporate Risk Management in three levels:

- (i) Day-to-day risk management residing at the business units and divisions
- (ii) 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
 - Monitor the results of key performance indicators
 - Ensure good corporate governance

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

- **Risk Management Portfolio**

Based on its nature and characteristics, identified risks are broadly categorised into major risk types such as strategic, operational, financial, legal and regulatory, human capital, reputational and environmental. Risks are further classified, measured and prioritised using a “5 x 5” risk matrix methodology.

LIKELIHOOD

Common	Medium Low	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

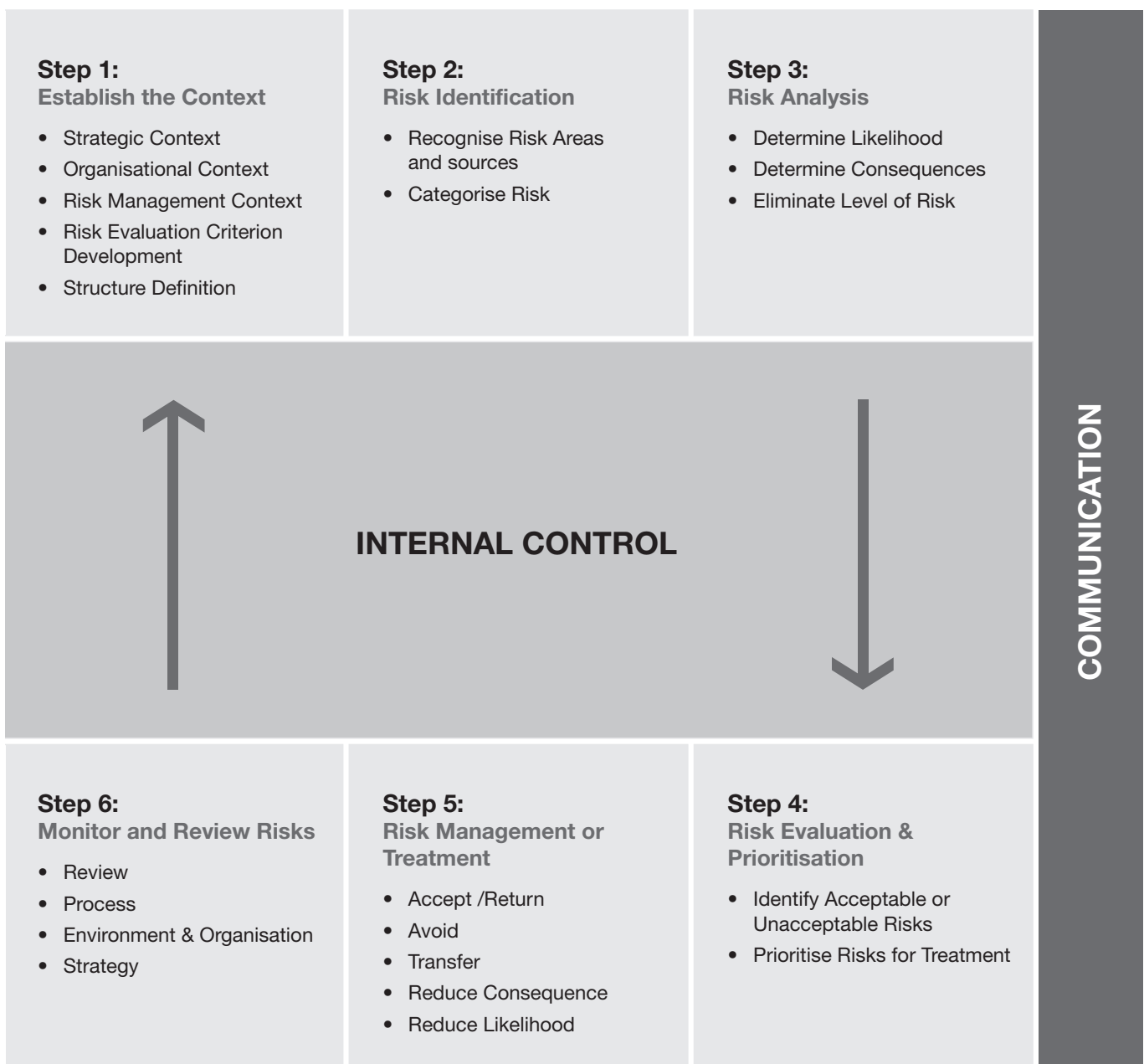
- **Risk Control Assurance**

This is driven by the Group Internal Auditors from UEM Group Management Sdn Bhd. The internal auditor is 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:

RISK MANAGEMENT FRAMEWORK PROCESS



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 crystallising**

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 risk 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 events 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 practice such as the statement of compliance with the Malaysian Code on Corporate Governance.

In July and December 2009, the RMWGC and management jointly updated the risk register and risk management action plans.

The RMC met twice during the year in August 2009 and February 2010 to review Group's risk profile and progress of the action plans for 2009. The RMC tabled its report to the Board of Directors in August 2009 and February 2010.

Summary of risks for the year:

Total existing risks	65
New risks identified	2
Deletion of risks	(2)
Total risks	65

Risk Rating

Significant	19
Moderate	32
Medium Low	11
Low	3
Total risks	65

Group Risk Profile

Consistent with good corporate governance below are the macro components of the Group risk profile which are significant to the Group business:

Logistics Business Risks

Pharmaniaga Logistics Sdn Bhd, one of the Group's subsidiaries, manages the concession of supplying drugs and medical disposables to government hospitals in Malaysia, the agreement of which ended in December 2009. The Ministry of Health has agreed in principle to extend the concession for a further 10 years subject to terms and conditions which are to be negotiated and finalised by 31 May 2010. The Group assessed the risk of an adverse effect on its business operations arising from this risk as low at present.

Manufacturing and Marketing Business Risks

The manufacturing licence of one of the Group's subsidiaries, Pharmaniaga Manufacturing Berhad ("the Company"), had been revoked by the Pharmaceutical Services Division ("PSD") of the Ministry of Health following its routine audit to the plant in March 2010. However, the Company had been issued the license on 15 March 2010 after the satisfactory follow up audit by the PSD. The Group assessed the risk of an adverse effect on its business operations arising from the above risk as moderate at present.

In this manufacturing sector, the Group is also exposed to the economic conditions of the global economy, impact of competition from other pharmaceutical players, market demand, shortage of raw materials and changes in regulatory environment. Ongoing risk monitoring is conducted to actively review the economic conditions and its impact to the businesses and the effectiveness of risk mitigation measures. The Group has expanded its market penetration strategy including overseas markets where Vietnam and Indonesia have 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 low at the moment.

Statement on Corporate Responsibility

Businesses today must remain mindful of their impact on people, community and the environment. At Pharmaniaga, we have ingrained Corporate Responsibility as a self-regulating mechanism that monitors and ensures our observance to law, ethical standards, and international norms. We take responsibility for the impact of our activities on the environment, consumers, employees, communities, and other stakeholders. Beyond that, we proactively promote public interest by encouraging community growth and development, and voluntarily monitoring and eliminating harmful practices.

1. WORKPLACE - ER, IR and Security

Prioritising the relationships we build with our employees, Pharmaniaga strives to enhance our adherence to the following commitments and objectives:

- Employee Relations (ER)
 - Maintain employer-employee relationships that contribute to satisfactory productivity, motivation and morale.
 - Enhance the value proposition of Pharmaniaga as the preferred employer in the healthcare industry.
 - Conduct activities or programmes to enhance the working relationships among staff via sports, social events and recreational activities.
- Industrial Relations (IR)
 - Create and establish a harmonious working environment for employees.
 - Prevent and resolve problems involving individuals which arise out of, or affect work situations.
 - Periodically update staff on relevant sections of the Employment Act, Industrial Act, Trade Union Act and our own Code of Conduct.
- Security
 - Ensure the security of personnel and property within the office compound. Manage the parking arrangements and traffic flow of vehicles in the office compound.

“10CC”

“10CC” is a pledge by the ER/IR/Security Department to inculcate and assimilate outstanding work ethics and culture in employee activities in 2010. An acronym for “2010 Culture Centric”, 10CC aims to induce a paradigm shift in our employees’ mindset to embrace and internalise our High Performance Culture (“HPC”) values known as TOPIC (Teamwork, Open Communication, Passion for Excellence, Integrity and Honesty, and Care). In 2009, 14 HPC Groups were sent for teambuilding exercises in Port Dickson to better equip our staff with a positive work culture towards our mission of nurturing professional, committed and caring employees.

EMPLOYEE WELFARE

We cater to employee needs through the following initiatives:

- Setting up of a Joint Consultative Council
- Establishing Kelab Sukan & Rekreasi Pharmaniaga Berhad branches at every Pharmaniaga entity to organise outings, activities and events.
- Establishing a Surau Committee
- Organising in-house ER activities i.e monthly assembly; family days; dinner
- Providing financial assistance (alms/zakat) to eligible staff with the guidance of Lembaga Zakat Selangor.
- Reserving designated parking space to expecting mothers and staff with health problems.

MEASURING SUCCESS

We strive for continuous improvements in building relationships with our employees. Deeming feedback as important, we consistently measure our efforts through the following:

- Feedback questionnaires upon completion of activities (2009 target score 70%)
- Feedback questionnaires upon the release of each HR Bulletin (2009 target score 70%)
- Employee Climate Survey (2009 target score 82% vs 77% in 2008)
- Monitoring number of participants in every activity (recorded increase and oversubscription in 2009)

2. ENVIRONMENT, SAFETY AND HEALTH - EP AND OSH

Our Environment, Safety and Health ("ESH") policies set the standards for environmental protection ("EP") and occupational safety and health ("OSH"). Pharmaniaga stringently adheres to the following legislations that pertain to ESH:

- Occupational Safety and Health (OSHA 1994)
- Environmental Quality Act 1974
- Factory Machinery Act 1967
- Bomba Act
- Other relevant legislations

MONITORING ESH

The monitoring and maintenance of ESH performance are done through our Quality Environment, Safety and Health ("QESH") committee whereby the members discuss and implement any requirement as in the relevant legislation requirement Act, ISO standard requirement, ESH management system or any subject arising to ensure the effectiveness of the systems.

Areas that are commonly covered are;

- Workplace Inspection
- Environmental Aspect Impact Assessment
- Hazard Identification Risk Assessment and Risk Control ("HIRARC")
- Internal audit for all management system
- Fire drill
- SIRIM audit
- Management Review

ESH PERFORMANCE

Our EP and OSH goals are:

- To achieve zero lost time accidents
- To continually increase level of awareness among staff on ESH related matters by 5% annually
- To reduce scheduled waste by 5%
- To support the community by jointly organising ESH activities with Local Authorities
- To reduce electricity and water usage by 1%

In the year under review we recorded a reduction in electricity usage to 3,156,561 KW from 3,359,823 KW in 2008 by eliminating air conditioning usage during weekends. Our water usage though, recorded an increase from 17,625 m³ to 18,142 m³ because of an additional block occupation by the new Commercial Division, which increased the number of required chillers from 2 to 3. However, the 517 m³ increase of water usage was minimal considering that we were running 3 chillers. We also continued to minimise our impact on the environment by reusing/recycling 1,440 pallets, instead of getting new ones for shipment purposes.

In 2009, we began to participate in the annual Earth Hour campaign by switching our lights out for one hour from 8.30pm to 9.30pm on 28 March 2009 to show our commitment in fighting against global warming.

Statement on Corporate Responsibility (cont'd)

We have also successfully organised Healthy Living awareness programmes such as:

- Fitness (Aerobic Dance class; Jom Jogging)
- Nutrition (Talk on diet; healthy cooking courses)
- Smoke cessation (Stop Smoking campaign; exhibition)
- Stress management (Talk and demonstration by motivational speakers)
- Diagnostics (Health screening for hypertension/cholesterol/glucose level)

MEASURING QESH SUCCESS

We apply the Plan-Do-Check-Action ("PDCA") cycle to ensure implementation consistency. In addition to ESH, we also strive to enhance the quality of our management system. Standards that we are certified to and continuously updating are;

- ISO 9001:2008
- ISO 14001:2004
- OHSAS 18001:2007

We also measure our success through;

- Objectives and target achievement
- Increase in staff awareness on ESH
- Reduction in accident trend
- Reduction in Internal Audit and other Compliance Assessment activities
- Reduction in SIRIM audit Non-Compliance Report ("NCR") and Opportunity for Improvement ("OFI")

3. COMMUNITY PROGRAMMES

The Group also seeks to enrich the lives of the needy and less fortunate, while at the same time embracing national aspirations that aim to enhance national unity and economic development. In view of this, the Group continues on its community service project known as Skuad Operasi Sihat ("SOS").

SOS

SOS is designed to have a lasting impact on the community as it provides a wide scope of healthcare information, including consumer awareness of proper medicine management. While providing the rural and marginalised communities the opportunity to know the real physical condition of their bodies - Body Mass Index ("BMI"), blood pressure, glucose and cholesterol levels - they are also educated on the drugs they are taking from their doctors so they can make knowledgeable decisions to maintain a healthy condition.

In the year under review, SOS went on missions throughout the country in conjunction with the World Health Day 2009 including to the communities of Kg Bobogun in Penampang, Sabah and Kota Samarahan in Kuching, Sarawak. Throughout 2009, SOS continued its monthly visits to Agensi Anti-Dadah Kebangsaan. A SOS Carnival was also held on 16 August 2009 at SRJK (C) Serdang Baru, Selangor where over three hundred and twenty Malaysians from all walks of life benefited from that one-day programme.

Other corporate philanthropy projects were:

- Sponsorship of RM10,000 to MERCY Malaysia
- Standard list of medicine for emergency dispatch by MERCY to disaster areas in the region
- Donation of medical supplies worth RM42,000 and cash donation of RM10,000 towards victims of the earthquake in Padang, Indonesia via MERCY Malaysia.
- Contribution of 15,000 packets of cookies valued at RM10,000 to the Malaysian Armed Forces for soldiers who were on duty in and outside Malaysia during the Hari Raya celebration period

Moving forward, the Group will continue to actively engage in community based projects that are sustainable and bring value to society in meaningful and tangible ways.

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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 2009.

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	61,727	17,696

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 2008:	
- final 27 sen gross dividend less taxation of 25% paid on 2 July 2009	21,663

The Directors have recommended the payment of a final gross dividend of 27 sen and a special gross dividend of 10 sen per share, less taxation of 25% respectively, for the financial year ended 31 December 2009 amounting to approximately RM29,686,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 15 July 2010 to shareholders registered on the Company's Register of Members at the close of business on 14 June 2010.

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

There were no shares or debentures issued during the financial year.

SIGNIFICANT EVENTS

Significant events during the financial year are disclosed in Note 36 to the financial statement.

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

Datuk Sulaiman bin Daud

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

Oh Kim Sun

Mohamad bin Abdullah

Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin

(resigned on 24 April 2009)

Dato' Ahmad Pardas bin Senin

(resigned on 2 June 2009)

Ismael Fariz bin Ali

(resigned on 16 October 2009)

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.

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 35 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 in the Company and its related companies were as follows:

The Company

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
Direct interest				
Mohamad bin Abdullah	100	–	–	100
Deemed interest				
Dato' Mohamed Azman bin Yahya*	10,000	–	–	10,000
Oh Kim Sun**	177,000	–	–	177,000

* 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.

Directors' Report (cont'd)

DIRECTORS' INTERESTS (cont'd)

UEM Land Holdings Berhad

	Number of ordinary shares of RM0.50 each			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
Direct interest				
Mohamad bin Abdullah	140,000	–	140,000	–
Plus Expressways Berhad				
Dato' Mohamed Azman bin Yahya	40,000	–	–	40,000

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:

- 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
- 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:

- 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
- which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- 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:

- 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
- any contingent liability of the Group or Company which has arisen since the end of the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (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, both 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 19 February 2010.



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 63 to 115 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 2009 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 19 February 2010.

DATO' MOHAMED AZMAN BIN YAHYA
CHAIRMAN

MOHAMAD BIN ABDULLAH
MANAGING DIRECTOR

Statutory Declaration

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

I, Mohamad bin Abdullah, being the Director primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 63 to 115 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.

MOHAMAD BIN ABDULLAH

Subscribed and solemnly declared by the abovenamed Mohamad bin Abdullah at Kuala Lumpur on 19 February 2010, before me.



Tkt 5 Wisma Hartamas
No 106 Jalan Tuanbu / bld, Ratu-an
50100 Kuala Lumpur
Tel: 019-233 4411

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 2009 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 63 to 115.

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 Financial Reporting Standards, the 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 Financial Reporting Standards, the 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 2009 and of their financial performance and cash flows for the year then ended.

Independent Auditors' Report (cont'd)
to the Members of Pharmaniaga Berhad
(company No. 467709 M)
(Incorporated in Malaysia)

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 have considered the financial statements and the auditors' reports of subsidiaries of which we have not acted as auditors, which are indicated in Note 14 to the financial statements.
- (c) 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.
- (d) 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



JAYARAJAN A/L U. RATHINASAMY
(No. 2059/06/10 (J))
Chartered Accountant

Kuala Lumpur
19 February 2010

Income Statements

for the Financial Year ended 31 December 2009

	Note	Group		Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Revenue	4	1,300,796	1,305,646	34,684	33,080
Cost of sales	5	(1,096,962)	(1,073,779)	–	–
Gross profit		203,834	231,867	34,684	33,080
Other income		13,292	3,120	2,050	3,361
Administrative expenses		(88,466)	(94,190)	(15,745)	(16,090)
Selling and distribution costs		(28,023)	(28,338)	–	–
Other expenses		(13,914)	(16,534)	(336)	(173)
Finance costs		(4,467)	(6,267)	(2,957)	(5,537)
Share of results from associated company		(820)	941	–	–
Profit before zakat and taxation	6	81,436	90,599	17,696	14,641
Zakat	8	–	(1,300)	–	–
Taxation	9	(19,709)	(27,890)	–	–
Profit for the financial year		61,727	61,409	17,696	14,641
Attributable to:					
Equity holders of the Company		60,191	60,031	17,696	14,641
Minority interest		1,536	1,378	–	–
Profit for the financial year		61,727	61,409	17,696	14,641
Earnings per share (sen):					
- basic	10	56.26	56.12		
Dividend per share (sen):					
- final gross dividend					
proposed/paid less taxation of 25%	11	27	27		
- special gross dividend					
proposed less taxation of 25%	11	10	–		

Balance Sheets

as at 31 December 2009

		Group		Company	
	Note	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	277,515	257,804	—	—
Prepaid lease payments	13	3,033	3,116	—	—
Investments in subsidiary companies	14	—	—	184,523	184,523
Investments in associated companies	15	6,562	7,382	1,970	1,970
Amounts due from subsidiary companies	20	—	—	—	29,843
Intangible assets	16	28,820	31,355	—	—
Deferred tax assets	29	3,904	3,246	—	—
		319,834	302,903	186,493	216,336
Current assets					
Inventories	17	228,067	162,210	—	—
Trade receivables	18	128,743	156,277	—	—
Other receivables	19	11,675	11,023	201	223
Amounts due from subsidiary companies	20	—	—	167,509	141,495
Amounts due from related companies	21	15,699	19,752	—	—
Amounts due from associated companies	21	1,789	3,091	—	—
Tax recoverable		8,030	1,607	—	—
Fixed deposits	22	60,534	58,300	—	—
Cash and bank balances	22	43,874	35,873	2,708	2,263
		498,411	448,133	170,418	143,981
Non-current assets held for sale	23	—	47,282	—	—
TOTAL ASSETS		818,245	798,318	356,911	360,317

		Group		Company	
	Note	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	28	106,978	106,978	106,978	106,978
Share premium		22,447	22,447	22,447	22,447
Exchange reserves		(2,421)	(6,491)	–	–
Retained earnings		303,629	265,101	61,351	65,318
Equity attributable to equity holders of the Company		430,633	388,035	190,776	194,743
Minority interest		15,703	14,167	–	–
Total equity		446,336	402,202	190,776	194,743
Non-current liabilities					
Loans and borrowings	27	7,429	23,393	4,950	23,393
Deferred tax liabilities	29	3,131	3,236	–	–
Provision for defined benefit plan	30	2,449	1,474	–	–
		13,009	28,103	4,950	23,393
Current liabilities					
Trade payables	24	268,703	235,199	–	–
Other payables	25	23,058	28,698	1,285	4,660
Amount due to immediate holding company	26	428	21	428	21
Amounts due to subsidiary companies	20	–	–	122,420	70,832
Amounts due to related companies	21	100	2,244	58	713
Amounts due to associated companies	21	4,571	2,112	4,566	1,468
Tax payable		3,964	981	–	–
Dividend payable		–	6	–	6
Loans and borrowings	27	58,076	98,752	32,428	64,481
		358,900	368,013	161,185	142,181
Total liabilities		371,909	396,116	166,135	165,574
TOTAL EQUITY AND LIABILITIES		818,245	798,318	356,911	360,317

Statements of Changes in Equity

for the financial year ended 31 December 2009

Note	Equity attributable to equity holders of the Company					Minority interest RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Exchange reserves RM'000	Retained earnings RM'000	Total RM'000		
Group							
At 1 January 2009	106,978	22,447	(6,491)	265,101	388,035	14,167	402,202
Currency translation differences, representing expenses recognised directly in equity	-	-	4,070	-	4,070	-	4,070
Profit for the financial year	-	-	-	60,191	60,191	1,536	61,727
Total recognised income and expense for the year	-	-	4,070	60,191	64,261	1,536	65,797
2008 final 27 sen gross dividend paid less taxation of 25%	11	-	-	(21,663)	(21,663)	-	(21,663)
At 31 December 2009	106,978	22,447	(2,421)	303,629	430,633	15,703	446,336

Note	Equity attributable to equity holders of the Company					Minority interest RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Exchange reserves RM'000	Other reserves RM'000	Retained earnings RM'000	Total RM'000	
Group							
At 1 January 2008	106,963	22,410	(3,681)	3,428	220,551	349,671	12,789
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
Total recognised income and expense for the year	-	-	(2,810)	-	60,031	57,221	1,378
2007 final 18 sen tax exempt dividend paid	11	-	-	-	(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	-	-
At 31 December 2008	106,978	22,447	(6,491)	-	265,101	388,035	14,167

Note	Share capital RM'000	Non-distributable		Distributable	Total RM'000
		Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	
Company					
At 1 January 2009	106,978	22,447	–	65,318	194,743
Profit for the financial year	–	–	–	17,696	17,696
Dividends for financial year ended:					
- 2008 final 27 sen gross					
dividend less taxation of 25%	11	–	–	(21,663)	(21,663)
At 31 December 2009	106,978	22,447	–	61,351	190,776
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 sen tax exempt dividend	11	–	–	(19,253)	(19,253)
At 31 December 2008	106,978	22,447	–	65,318	194,743

Cash Flow Statements

for the financial year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
CASH FLOW OPERATING ACTIVITIES				
Cash receipts from customers	1,353,784	1,397,835	–	–
Cash payments to suppliers	(1,151,237)	(1,034,445)	–	–
Cash payments to employees and for expenses	(108,243)	(157,896)	(17,939)	(9,951)
Cash receipts from/ (payment to) related companies	11,655	12,772	(998)	–
Advances from subsidiary companies	–	–	72,647	48,209
Cash from operations	105,959	218,266	53,710	38,258
Interest paid	(3,398)	(3,956)	–	–
Profit on Murabahah Commercial Paper paid	(486)	(1,212)	(486)	(1,212)
Tax paid	(28,170)	(32,190)	–	–
Tax refund	840	1,148	–	–
Interest received	871	32	–	–
Net cash flows generated from operating activities	75,616	182,088	53,224	37,046
CASH FLOW INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	159	389	–	–
Proceeds from disposal of non current assets held for sale	55,541	–	–	–
Purchase of property, plant and equipment	(32,008)	(21,349)	–	–
Deposit received from disposal of non current assets held for sale	–	350	–	–
Dividends received	–	–	21,990	20,700
Net cash flows generated from/(used in) investing activities	23,692	(20,610)	21,990	20,700

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares				
- exercise of share options	-	52	-	52
Dividends paid	(21,663)	(19,253)	(21,663)	(19,253)
Redemption of Murabahah Commercial Paper/ Medium Term Notes	(31,000)	(15,000)	(31,000)	(15,000)
Repayments of short term borrowings	(12,566)	(67,959)	-	-
Repayments of term loan	(19,800)	(18,000)	(19,800)	(18,000)
Term loan interest paid	(918)	(2,183)	(918)	(2,183)
Profit on Murabahah Medium Term Notes paid	(1,388)	(2,142)	(1,388)	(2,142)
Fixed deposits released	-	8	-	-
Net cash flows used in financing activities	(87,335)	(124,477)	(74,769)	(56,526)
CHANGE IN CASH AND CASH EQUIVALENTS	11,973	37,001	445	1,220
Foreign exchange differences	(1,738)	1,040	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	94,173	56,132	2,263	1,043
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	104,408	94,173	2,708	2,263
Cash and cash equivalents comprise:				
Fixed deposits	60,534	58,300	-	-
Cash and bank balances	43,874	35,873	2,708	2,263
Cash and cash equivalents	104,408	94,173	2,708	2,263

Notes to the Financial Statements

31 December 2009

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, both 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

- (i) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted.

The new standards, amendments to published standards and interpretation that are mandatory for the Group's financial periods beginning on or after 1 January 2010, but which the Group has not early adopted, are as follows:

- Revised FRS 3 Business Combinations
- FRS 7 Financial Instruments: Disclosures
- FRS 8 Operating Segments
- FRS 101 Presentation of Financial Statements
- Revised FRS 127 Consolidated and Separate Financial Statements
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendments to FRS 139 Reclassification of Fixed Assets
- Amendments to FRS 139 Eligible Hedged Items
- Amendments to IC Interpretation 9 and FRS 139 Eligible Hedge Items
- Amendments to FRS 1 and FRS 127 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 132 and FRS 101 Puttable Financial Investments and Obligations Arising on Liquidation
- IC Interpretation 9 Reassessment of Embedded Derivatives
- IC Interpretation 10 Interim Financial Reporting and Impairment
- IC Interpretation 13 Customer Loyalty Performances

- (ii) Standards, amendments to published standards and interpretation to existing standards that are not yet effective and not relevant for the Group's operations

- FRS 4 Insurance Contracts
- FRS 123 Borrowing Costs
- Amendments to FRS 2 Share Based Payments: Vesting Conditions and Cancellations
- IC Interpretation 11 FRS 2 Group & Treasury Share Transfers
- IC Interpretation 12 Service Concession Arrangements
- IC Interpretation 14 FRS 119 Limit on a Defined Benefit Asset
- IC Interpretation 15 Agreements for Construction of Real Estates
- IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17 Distribution of Non-Cash Assets to Owners

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.

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.

Notes to the Financial Statements (cont'd)

31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Basis of consolidation (cont'd)

(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 within 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.

(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:

	2009 RM	2008 RM
US Dollar	3.42	3.46
Euro	4.92	4.88
Singapore Dollar	2.44	2.41
Indonesian Rupiah	0.03	0.03
Sterling Pound	5.50	5.00
Australian Dollar	3.07	2.40

Notes to the Financial Statements (cont'd)

31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Foreign currencies (cont'd)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment (cont'd)

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.

(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.

Notes to the Financial Statements (cont'd)

31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Intangible assets (cont'd)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Inventories (cont'd)

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.

(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.

Notes to the Financial Statements (cont'd)

31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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

In the previous financial years, 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 non-market 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.

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.

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.

Notes to the Financial Statements (cont'd)

31 December 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Income taxes (cont'd)

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 forward exchange market rates at the balance sheet date.

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

In the previous financial year, the Group recognised its obligations towards the payment of zakat on business in the income statements. Zakat payment is an option and 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.

In financial year 2009, the Group did not pay zakat.

(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.

Notes to the Financial Statements (cont'd)

31 December 2009

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.

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-use 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 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. Refer to Note 16 on the impairment assessment of goodwill.

4 REVENUE

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Revenue consists of:				
Sale of goods	1,290,383	1,279,489	–	–
Contracts	10,413	26,157	–	–
Management fees	–	–	12,694	12,380
Dividend income	–	–	21,990	20,700
	1,300,796	1,305,646	34,684	33,080

5 COST OF SALES

	Group	
	2009	2008
	RM'000	RM'000
Cost of sales consists of:		
Cost of inventories sold	1,088,517	1,050,993
Contracts costs	8,445	22,786
	1,096,962	1,073,779

6 PROFIT BEFORE ZAKAT AND TAXATION

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
- statutory				
- current	218	229	40	40
- under provision in prior year	19	65	–	20
- others	78	294	–	–
Amortisation of project development expenditure	735	633	–	–
Property, plant and equipment				
- depreciation	13,847	14,766	–	–
- written-off	856	466	–	–
Amortisation of prepaid lease payments	83	81	–	–
Gain on disposal of property, plant and equipment	(158)	(533)	–	–
Gain on disposal of non current assets held for sale	(9,569)	–	–	–
Directors' remuneration				
- fees payable to directors	384	393	312	321
- fees payable to holding company	17	36	17	36
- salaries, bonuses and other emoluments	847	1,120	847	1,120
Finance cost				
- interest expense on term loan	4,091	4,038	918	2,183
- interest expense on bankers' acceptance	73	1,666	–	–
- profit on Murabahah Commercial Paper	–	–	646	1,212
- profit on Murabahah Medium Term Notes	–	–	1,388	2,142
- others	303	563	–	–
Interest income	(869)	(795)	(2,051)	(3,354)
Allowance for doubtful debts	1,879	2,886	399	173
Write back of allowance for doubtful debts	(1,889)	(2,268)	–	–
Bad debts written off	373	–	–	–
Allowance for slow moving and obsolete inventories	5,020	5,390	–	–
Inventories written off	3,013	3,610	–	–
Write back of allowance for slow moving and obsolete inventories	–	(286)	–	–
Rental of premises	1,571	1,724	17	6
Rental of equipment	586	488	112	104
Research and development expenses	1,932	1,488	–	–
Government grant	(944)	(800)	–	–
(Gain)/loss on foreign currency exchange	(1,773)	2	1	(7)
Rental income	(13)	(12)	–	–
Impairment of brand	–	1,000	–	–
Impairment of goodwill	1,800	1,000	–	–
Impairment of non-current assets held for sale	–	1,034	–	–
Employee benefit expenses (Note 7)	59,445	64,520	9,866	10,126

The estimated monetary value of benefits provided to Directors of the Company during the financial year amounted to RM15,000 (2008: RM15,000).

Notes to the Financial Statements (cont'd)

31 December 2009

7 EMPLOYEE BENEFIT EXPENSES

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Salaries and bonus	40,561	44,956	5,853	5,480
Defined contribution plan	4,476	4,854	734	791
Short term employee benefits	13,160	12,817	2,103	2,378
Equity compensation benefits	–	344	–	–
	58,197	62,971	8,690	8,649
Directors' remuneration	1,248	1,549	1,176	1,477
	59,445	64,520	9,866	10,126

The number of employees of the Group and Company at the end of the financial year is 1,791 and 93 (2008: 1,954 and 86) respectively.

8 ZAKAT

	Group	
	2009	2008
	RM'000	RM'000
Zakat paid	–	(1,300)

9 TAXATION

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Current tax:				
- Malaysian income tax	18,867	28,070	–	–
- foreign income tax	1,833	1,969	–	–
- over provision in prior years	(228)	(669)	–	–
Deferred taxation (Note 29)				
- reversal of net temporary differences	(763)	(1,480)	–	–
	19,709	27,890	–	–

The provision for current year's taxation for the Group is made by applying the statutory tax rate on the respective companies' chargeable income.

9 TAXATION (cont'd)

The reconciliation between the statutory and effective tax expenses is as follows:

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and taxation	81,436	90,599	17,696	14,641
Income tax at rate of 25% (2008: 26%)	20,359	23,556	4,424	3,807
Tax effect in respect of:				
Non-allowable expenses	5,190	8,928	2,906	7,993
Income not subject to tax	(4,931)	(4,247)	(7,330)	(11,800)
Effect of different tax rate of a foreign subsidiary	52	366	–	–
Utilisation of current year's reinvestment allowances	(669)	(44)	–	–
Utilisation of previously unrecognised capital allowances	(64)	–	–	–
Over provision of income tax in prior years	(228)	(669)	–	–
	19,709	27,890	–	–

10 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders of RM60,191,000 (2008: RM60,031,000) and the weighted average number of ordinary shares in issue during the year of 106,978,000 (2008: 106,971,000).

	Group	
	2009	2008
	RM'000	RM'000
Net profit attributable to shareholders (RM'000)	60,191	60,031
Weighted average number of ordinary shares in issue ('000)	106,978	106,971
Basic earnings per share (sen)	56.26	56.12

Notes to the Financial Statements (cont'd)

31 December 2009

11 DIVIDENDS

During the financial year, dividends proposed, declared and paid in respect of ordinary shares for the financial year are as follows:

	Group and Company			
	2009	2008	2009	2008
	Per share sen	Amount of dividend RM'000	Per share sen	Amount of dividend RM'000
Final gross dividend proposed/paid	27	21,663	27	21,663
less taxation of 25%				
Special gross dividend proposed	10	8,023	–	–
less taxation of 25%				
		29,686		21,663

At the forthcoming Annual General Meeting, a final gross dividend of 27 sen and a special gross dividend of 10 sen per share, less taxation of 25% in respect of the financial year ended 31 December 2009 (2008: 27 sen per share less taxation of 25%) amounting to approximately RM21,663,000 (2008: RM21,663,000) and RM8,023,000 (2008: Nil) respectively will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect the proposed final and special gross dividends. This will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2010.

12 PROPERTY, PLANT AND EQUIPMENT

Group	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
At 31 December 2009						
Cost	204,485	62,484	6,104	114,826	5,516	393,415
Accumulated depreciation	(37,128)	(38,160)	(5,135)	(35,477)	–	(115,900)
Net book value	167,357	24,324	969	79,349	5,516	277,515
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

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	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
Movements in net book value						
At 1 January 2009	166,908	24,185	1,176	61,694	3,841	257,804
Additions	4,650	4,557	171	22,591	1,675	33,644
Disposals	–	–	–	(1)	–	(1)
Written off	(120)	(381)	–	(355)	–	(856)
Depreciation charged	(4,310)	(4,493)	(451)	(4,593)	–	(13,847)
Foreign exchange adjustment	229	456	73	13	–	771
At 31 December 2009	167,357	24,324	969	79,349	5,516	277,515
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

Notes to the Financial Statements (cont'd)

31 December 2009

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on long leasehold land RM'000	Buildings on short leasehold land RM'000	Total RM'000
Group					
Analysis of land and buildings:					
At 31 December 2009					
Cost	25,323	113,564	61,986	3,612	204,485
Accumulated depreciation	–	(11,083)	(25,386)	(659)	(37,128)
Net book value	25,323	102,481	36,600	2,953	167,357
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
Movements in net book value					
At 1 January 2009	25,190	100,015	38,672	3,031	166,908
Additions	–	3,613	1,037	–	4,650
Written off	–	–	(120)	–	(120)
Depreciation charged	–	(1,229)	(3,003)	(78)	(4,310)
Foreign exchange adjustment	133	82	14	–	229
At 31 December 2009	25,323	102,481	36,600	2,953	167,357
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

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 2009				
Cost	18,407	14,667	29,410	62,484
Accumulated depreciation	(13,234)	(10,065)	(14,861)	(38,160)
Net book value	5,173	4,602	14,549	24,324
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
Movements in net book value				
At 1 January 2009				
Additions	180	2,795	1,582	4,557
Written off	(41)	(284)	(56)	(381)
Depreciation charged	(380)	(688)	(3,425)	(4,493)
Foreign exchange adjustment	–	–	456	456
As at 31 December 2009	5,173	4,602	14,549	24,324
At 1 January 2008				
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

Certain property, plant and equipment of a subsidiary company with net book value totalling RM1,598,212 (2008: RM1,433,200) have been pledged as collateral for borrowings as explained in Note 27.

Borrowing costs of RM 2,183,059 (2008: RM3,441,352), incurred specifically for the construction of the Small Volume Injectable plant and purchases of related equipment were capitalised during the financial year.

Notes to the Financial Statements (cont'd)

31 December 2009

13 PREPAID LEASE PAYMENTS

Group

At 31 December 2009

Cost

Accumulated amortisation

Net book value

At 31 December 2008

Cost

Accumulated amortisation

Net book value

Movements in net book value

At 1 January 2009

Amortisation charged for the year

At 31 December 2009

At 1 January 2008

Amortisation charged for the year

At 31 December 2008

	Long term RM'000	Short term RM'000	Total RM'000
Cost	2,128	1,689	3,817
Accumulated amortisation	(374)	(410)	(784)
Net book value	1,754	1,279	3,033
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
Movements in net book value			
At 1 January 2009	1,786	1,330	3,116
Amortisation charged for the year	(32)	(51)	(83)
At 31 December 2009	1,754	1,279	3,033
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

14 INVESTMENTS IN SUBSIDIARY COMPANIES

Unquoted shares, at cost

	Company 2009 RM'000	2008 RM'000
Unquoted shares, at cost	184,523	184,523

Details of the subsidiary companies are as follows:

Name of company	Country of incorporation	Effective Equity Interest		Principal activities
		2009 %	2008 %	
Subsidiary companies of the Company				
Pharmaniaga Manufacturing Berhad	Malaysia	100	100	Manufacture, sale and marketing of pharmaceutical products
Pharmaniaga LifeScience Sdn. Bhd.	Malaysia	100	100	Manufacture and sale of pharmaceutical products
Pharmaniaga Logistics Sdn. Bhd.	Malaysia	100	100	Purchase, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions

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		Principal activities
		2009 %	2008 %	
Subsidiary companies of the Company (cont'd)				
Pharmaniaga Marketing Sdn. Bhd.	Malaysia	100	100	Dormant
Pharmaniaga Research Centre Sdn. Bhd.	Malaysia	100	100	Conduct research and development of pharmaceutical products
Insurgress Sdn. Bhd.	Malaysia	100	100	Dormant
Safire Pharmaceuticals (M) Sdn. Bhd.	Malaysia	100	100	Dormant, ceased operations during the year
Pharmaniaga International Corporation Sdn. Bhd.	Malaysia	100	100	Investment holding
Pharmaniaga Pegasus (Seychelles) Co. Ltd. *	Republic of Seychelles	100	100	Investment holding
Pharmaniaga Biovention Sdn. Bhd.	Malaysia	100	100	Dormant
Subsidiary company of Pharmaniaga Manufacturing Berhad				
Pharmaniaga Trading (M) Sdn. Bhd.	Malaysia	–	100	Dissolved
Subsidiary company of Pharmaniaga Logistics Sdn. Bhd.				
Pharmaniaga Biomedical Sdn. Bhd.	Malaysia	100	100	Supply, trading and installation of medical and hospital equipment
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 27.

Notes to the Financial Statements (cont'd)

31 December 2009

15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Unquoted shares, at cost	29,020	28,079	4,580	4,580
Group's share of post acquisition (losses)/profits	(820)	941	–	–
	28,200	29,020	4,580	4,580
Less: Accumulated impairment losses	(21,638)	(21,638)	(2,610)	(2,610)
	6,562	7,382	1,970	1,970

The Group's share of revenue, profit, assets and liabilities of associated companies are as follows:

	Group	
	2009 RM'000	2008 RM'000
Results		
Revenue	9,444	11,957
(Losses)/profits after tax	(820)	941
Assets and liabilities		
Non-current assets	6,267	7,245
Current assets	3,648	3,850
Current liabilities	(3,353)	(3,713)
Net assets	6,562	7,382

The Group's share of losses of associated companies that have not been recognised amounted to RM422,595 (2008: RM668,000) for the current financial year and RM5,241,000 (2008: RM4,818,000) cumulatively as at 31 December 2009 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 the associated companies are as follows:

Name of company	Country of incorporation	Effective Equity Interest		Principal activities
		2009 %	2008 %	
Associated companies of the Company				
Pharmacare Asia Holdings (Cayman) Limited	Cayman Island	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 Pegasus (Seychelles) Co. Ltd.				
Wuxi Worldbest Treeful Pharma Pharmaceutical Co. Ltd.	People's Republic of China	–	40	Wound up

16 INTANGIBLE ASSETS

	Goodwill RM'000	Project development expenditure RM'000	Brand RM'000	Total RM'000
Group				
Cost				
At 1 January/31 December 2009	39,248	9,371	1,000	49,619
At 1 January/31 December 2008	39,248	9,371	1,000	49,619
Accumulated amortisation/impairment				
At 1 January 2009				
- Accumulated amortisation	8,628	8,636	1,000	18,264
Amortisation charged	–	735	–	735
Impairment loss	1,800	–	–	1,800
At 31 December 2009	10,428	9,371	1,000	20,799
At 1 January 2008	7,628	8,003	–	15,631
Amortisation charged for the year	–	633	–	633
Impairment loss	1,000	–	1,000	2,000
At 31 December 2008	8,628	8,636	1,000	18,264
Net book value				
At 31 December 2009	28,820	–	–	28,820
At 31 December 2008	30,620	735	–	31,355

Notes to the Financial Statements (cont'd)

31 December 2009

16 INTANGIBLE ASSETS (cont'd)

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:

	2009			2008		
	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	9,853	25,754	15,901	11,653	27,554
Indonesia	3,066	–	3,066	3,066	–	3,066
	18,967	9,853	28,820	18,967	11,653	30,620

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 six-year period and applying a terminal value multiple using longer-term sustainable growth rates stated below.

During the year, the Directors had conducted a test on the goodwill of its medical products and services segment and after taking into consideration the potential economic benefits from the future projects expected to be awarded, an impairment loss of RM1.8 million has been recognised for the financial year.

Key assumptions used for value-in-use calculations:

	2009		2008	
	Pharmaceutical trading, marketing and distribution	Medical products and services	Pharmaceutical trading, marketing and distribution	Medical products and services
Gross margin ¹ (%)	12.0	18.0	12.0	24.0
Discount rate ² (%)	10.0	10.0	5.5	5.5
Local university project ³ (RM'000)	–	80,206	–	6,135

¹ Budgeted gross margin

² Pre-tax discount rate applied to the cash flow projections

³ Expected revenue to be generated upon securing a contract to supply and install medical equipment to a local university

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 discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Management's judgement is involved in estimating the future cash flows of trading and installation of medical and hospital equipment of a subsidiary. The "value in use" is sensitive to, amongst others, the projected cash flows during the explicit projection period and the assumptions regarding the long term sustainable pattern of cash flows thereafter.

16 INTANGIBLE ASSETS (cont'd)**Impairment tests for goodwill** (cont'd)

The circumstances where a reasonably possible change in the key assumptions will cause an additional impairment loss to be recognised include the following:

- (i) Unsuccessful in securing a supply and installation of medical equipment project with a local university commencing in 2012 until 2014; or
- (ii) Pre-tax discount rate is higher than 10%.

If the project as mentioned in (i) above which contributes 52% to the projected cash flow does not materialise, the impairment charge would be approximately RM4.52 million.

Had the pre-tax discount rate been 1% higher from the breakeven point as mentioned in note (ii) above (discount rate of 11%), the impairment charge would be approximately RM0.26 million.

Project development expenditure

The project development expenditure is amortised over the concession period of 15 years and has been fully amortised during the year.

17 INVENTORIES

	Group	
	2009	2008
	RM'000	RM'000
Raw materials	14,974	13,295
Packaging materials	3,123	3,051
Work-in-progress	990	1,570
Finished goods	208,980	144,294
	228,067	162,210

Certain inventories of a subsidiary company have been pledged as collateral for borrowings as explained in Note 27.

18 TRADE RECEIVABLES

	Group	
	2009	2008
	RM'000	RM'000
Trade receivables	127,360	159,001
Amounts due from customers on contracts (Note 31)	6,547	4,533
Less: Allowance for doubtful debts	(5,164)	(7,257)
	128,743	156,277

The credit terms of trade receivables range from 30 days to 120 days (2008: 30 days to 120 days).

Certain trade receivables of a subsidiary company have been pledged as collateral for borrowings as explained in Note 27.

Notes to the Financial Statements (cont'd)

31 December 2009

19 OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Other receivables and prepayments	12,165	11,871	201	223
Less: Allowance for doubtful debts	(490)	(848)	–	–
	11,675	11,023	201	223

20 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are unsecured and comprise:

	Company	
	2009	2008
	RM'000	RM'000
Current:		
Interest bearing	28,829	32,844
Interest free	138,680	108,651
	167,509	141,495
Non-current:		
Interest bearing	–	29,843
	167,509	171,338

Amounts due to subsidiary companies are unsecured and comprise:

	Company	
	2009	2008
	RM'000	RM'000
Current:		
Interest free	122,420	70,832

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 3.03% to 4.75% (2008: 3.65% to 4.90%) per annum and has no fixed repayment terms.

Non-current

The interest bearing portion of the amount due from a subsidiary company in the previous financial year 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.

The amount bore interest rates ranging from 3.65% to 4.14% per annum and repayable in full upon maturity of the Murabahah Medium Term Notes facility (see Note 27).

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 transportation, freight forwarding services, provision of scheduled waste treatment and disposal services, training and administrative services. The credit terms of amounts due to related companies granted to the Group range from 30 days to 60 days (2008: 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. The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment. The amount due from/(to) associated companies are as follows:

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Amount due from associated companies	4,325	5,627	1,127	613
Less: Allowance for doubtful debts	(2,536)	(2,536)	(1,127)	(613)
	1,789	3,091	–	–
Amount due to an associated company	4,571	2,112	4,566	1,468

22 FIXED DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Fixed deposits in licensed banks	60,534	58,300	–	–
Cash and bank balances	43,874	35,873	2,708	2,263

Fixed deposits as at 31 December 2009 have an average maturity period of 14 days (2008:14 days) .

During the year, the effective interest rate of fixed deposits was 1.98% (2008: 3.20%) per annum.

Cash and bank balances are deposits held at call with banks.

Notes to the Financial Statements (cont'd)

31 December 2009

23 NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2009 RM'000	2008 RM'000
Property, plant and equipment held for sale (less impairment: 2009:nil; 2008: RM1,034,000)	–	45,491
Prepaid lease payments	–	1,791
	–	47,282

In the previous financial year, the Group had resolved to dispose:

- (i) The property, plant and equipment of a subsidiary company, Safire Pharmaceuticals (M) Sdn Bhd for a total consideration of RM35.0 million; and
- (ii) Two lots of vacant freehold land of a subsidiary company, Pharmaniaga Lifescience Sdn Bhd for a total consideration of RM21.89 million.

Both disposals were completed during the year.

24 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2008: 30 days to 120 days).

25 OTHER PAYABLES

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Other payables	15,526	27,041	390	646
Accruals	7,532	1,657	895	4,014
	23,058	28,698	1,285	4,660

Included in other payables are government grants relating to the Kacip Fatimah project amounting to RM2.1 million (2008: Nil).

26 AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company arose from payment made on behalf. The amount is unsecured, interest free and has no fixed repayment terms.

27 LOANS AND BORROWINGS

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Short term				
Unsecured:				
- Bankers' acceptance	-	12,012	-	-
- Murabahah Commercial Paper	13,891	29,681	13,891	29,681
	13,891	41,693	13,891	29,681
Secured:				
- Foreign time loan	24,629	22,230	-	-
Sub-total	38,520	63,923	13,891	29,681
Add: Portion of long term borrowings due within 12 months	19,556	34,829	18,537	34,800
	58,076	98,752	32,428	64,481
Long term				
Unsecured:				
- Murabahah Medium Term Notes	14,937	29,843	14,937	29,843
Secured:				
- Term loan	8,550	28,350	8,550	28,350
- Foreign term loan	3,498	29	-	-
	12,048	29,379	8,550	28,350
Sub-total	26,985	58,222	23,487	58,193
Less: Portion of long term borrowings due within 12 months				
Unsecured:				
- Murabahah Medium Term Notes	(14,937)	(15,000)	(14,937)	(15,000)
Secured:				
- Term loan	(3,600)	(19,800)	(3,600)	(19,800)
- Foreign term loan	(1,019)	(29)	-	-
Sub-total	(19,556)	(34,829)	(18,537)	(34,800)
	7,429	23,393	4,950	23,393
Analysis of maturity of long term borrowings:				
- within 1 year	19,556	34,829	18,537	34,800
- between 1 and 2 years	4,566	18,443	3,600	18,443
- between 2 and 5 years	2,863	4,950	1,350	4,950
	26,985	58,222	23,487	58,193

Notes to the Financial Statements (cont'd)

31 December 2009

27 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 they mature are as follows:

Group	Effective interest rate % per annum	Fixed interest rate RM'000	Floating interest rate RM'000	Fixed interest rate						Total carrying amount RM'000
				<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	
2009										
Murabahah										
Commercial Paper	3.03	13,891	-	13,891	-	-	-	-	-	13,891
Murabahah Medium Term Notes	4.75	14,937	-	14,937	-	-	-	-	-	14,937
Term loan	4.16	-	8,550	3,600	3,600	1,350	-	-	-	8,550
Foreign time loan*	12.75	-	24,629	24,629	-	-	-	-	-	24,629
Foreign term loan*	12.75	3,498	-	1,019	966	966	547	-	-	3,498
		32,326	33,179	58,076	4,566	2,316	547	-	-	65,505
2008										
Bankers' acceptance	3.32	-	12,012	12,012	-	-	-	-	-	12,012
Murabahah										
Commercial Paper	3.65	29,681	-	29,681	-	-	-	-	-	29,681
Murabahah Medium Term Notes	4.14	29,843	-	15,000	14,843	-	-	-	-	29,843
Term loan	5.50	-	28,350	19,800	3,600	3,600	1,350	-	-	28,350
Foreign term loan*	15.00	29	-	29	-	-	-	-	-	29
Foreign time loan*	13.30	-	22,230	22,230	-	-	-	-	-	22,230
		59,553	62,592	98,752	18,443	3,600	1,350	-	-	122,145

* Functional currency/currency exposure in Indonesian Rupiah (IDR)

Company**2009**

Murabahah										
Commercial Paper	3.03	13,891	-	13,891	-	-	-	-	-	13,891
Murabahah Medium Term Notes	4.75	14,937	-	14,937	-	-	-	-	-	14,937
Term loan	4.16	-	8,550	3,600	3,600	1,350	-	-	-	8,550
		28,828	8,550	32,428	3,600	1,350	-	-	-	37,378

2008

Murabahah										
Commercial Paper	3.65	29,681	-	29,681	-	-	-	-	-	29,681
Murabahah Medium Term Notes	4.14	29,843	-	15,000	14,843	-	-	-	-	29,843
Term loan	5.50	-	28,350	19,800	3,600	3,600	1,350	-	-	28,350
		59,524	28,350	64,481	18,443	3,600	1,350	-	-	87,874

27 LOANS AND BORROWINGS (cont'd)

The carrying amounts of the Group and Company borrowings are denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	37,378	99,886	37,378	87,874
Indonesian Rupiah	28,127	22,259	–	–
	65,505	122,145	37,378	87,874

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 4.16 % (2008: 5.50%) per annum.

Foreign term loans

The foreign term loans were drawn down for working capital purposes and bear interest rates at 12.75% per annum (2008: 13.00% per annum). 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 is denominated in Indonesian Rupiah and is secured over certain property, plant and equipment (Note 12), inventories (Note 17) and trade receivables (Note 18) of the subsidiary company. It bears interest rates at 12.75% per annum (2008: 14.00% to 17.00% per annum).

28 SHARE CAPITAL

	Group and Company	
	2009	2008
	RM'000	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	106,978	106,963
Issue of shares under ESOS	–	15
At end of year	106,978	106,978

Notes to the Financial Statements (cont'd)

31 December 2009

29 DEFERRED TAXATION

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. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group	
	2009	2008
	RM'000	RM'000
Deferred tax assets	3,904	3,246
Deferred tax liabilities	(3,131)	(3,236)
	773	10
At beginning of financial year	10	(1,470)
Credited/(charged) to income statement (Note 9)		
- property, plant and equipment	(1,709)	(620)
- provisions	1,700	(176)
- unutilised tax losses	772	2,276
	763	1,480
At end of financial year	773	10
Subject to income tax		
Deferred tax assets		
- property, plant and equipment	225	(68)
- provisions	4,801	1,891
- unutilised tax losses	1,036	1,724
	6,062	3,547
Offsetting	(2,158)	(301)
	3,904	3,246
Deferred tax liabilities		
- property, plant and equipment	(5,289)	(3,537)
Offsetting	2,158	301
	(3,131)	(3,236)

29 DEFERRED TAXATION (cont'd)

As at 31 December 2009, 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	
	2009	2008
	RM'000	RM'000
Unutilised business losses	2,221	5,139

The unutilised business losses are, however subject to Inland Revenue Board of Malaysia's approval. 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.

30 PROVISION FOR DEFINED BENEFIT PLAN

	Group	
	2009	2008
	RM'000	RM'000
Non-current	2,449	1,474

The movements during the financial year in the amounts recognised in the balance sheet of the Company are as follows:

	Group	
	2009	2008
	RM'000	RM'000
At 1 January	1,474	633
Charged to income statement	460	463
Benefits paid-unfunded obligations	(87)	(187)
Adjustment on last year's balance	602	565
At 31 December	2,449	1,474

The amounts recognised in the balance sheet are determined as follows:

	Group	
	2009	2008
	RM'000	RM'000
Present value of unfunded obligations	2,449	1,474
Net liabilities	2,449	1,474

Notes to the Financial Statements (cont'd)

31 December 2009

30 PROVISION FOR DEFINED BENEFIT PLAN (cont'd)

The amounts recognised in the income statement are as follows:

	Group	
	2009	2008
	RM'000	RM'000
Current service cost	295	274
Interest cost	231	231
Amortisation of actuarial gain	(75)	(69)
Amortisation of past service cost	9	10
Gratuation	–	17
Expense recognised in the income statement	460	463

The principal actuarial assumptions used in respect of the Group's unfunded defined retirement benefits are as follows:

	Group	
	2009	2008
	%	%
Discount rate	11	12
Expected rate of salary increase	8	8

31 AMOUNTS DUE TO CUSTOMERS ON CONTRACTS

	Group	
	2009	2008
	RM'000	RM'000
Aggregate costs incurred to-date	33,404	24,959
Add: Attributable profit	4,617	2,649
	38,021	27,608
Less: Progress billings	(31,474)	(23,075)
Amounts due from customers (Note 18)	6,547	4,533
Contract revenue recognised during the financial year (Note 4)	10,413	26,157
Contract costs recognised as expense during the financial year (Note 5)	8,445	22,786

32 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.

Business segment	Business activity
Pharmaceutical manufacturing and marketing	Manufacturing and marketing of pharmaceutical products
Pharmaceutical trading and distribution	Purchasing, storage and distribution of pharmaceutical and medical products
Medical products and services	Supply and installation of medical and hospital equipment
Other operations	Investment holding

(a) Primary reporting – Business segments

Group	Pharmaceutical manufacturing and marketing RM'000	Pharmaceutical trading and distribution RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2009						
Revenue						
External sales	1,942	1,284,402	14,452	–	–	1,300,796
Intersegment sales	138,574	21,990	–	34,684	(195,248)	–
Total revenue	140,516	1,306,392	14,452	34,684	(195,248)	1,300,796
Results						
Segment results	23,268	60,346	(2,336)	22,776	(2,164)	101,890
Unallocated corporate expenses						(16,036)
Profit from operations						85,854
Interest expense		(3,561)	–	(2,957)	2,051	(4,467)
Interest income		862	7	2,051	(2,051)	869
Share of results of associated company						(820)
Profit before zakat and taxation						81,436
Income tax expense						(19,709)
Profit for the financial year						61,727

Notes to the Financial Statements (cont'd)

31 December 2009

32 SEGMENTAL REPORTING (cont'd)**(a) Primary reporting – Business segments** (cont'd)

Group	Pharmaceutical manufacturing and marketing RM'000	Pharmaceutical trading and distribution RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2009						
Other information						
Segment assets	426,911	579,324	45,186	355,042	(606,715)	799,748
Investment in associated companies						6,562
Unallocated corporate assets						11,935
Total assets						818,245
Segment liabilities	231,649	355,994	32,568	189,669	(445,066)	364,814
Unallocated corporate liabilities						7,095
Total liabilities						371,909
Capital expenditure on property, plant and equipments	28,106	5,535	3	–	–	33,644
Depreciation	8,798	4,641	59	–	349	13,847
Impairment loss	–	1,800	–	–	–	1,800
Amortisation of project development expenditure and prepaid lease payments	10	808	–	–	–	818
Non cash expenses other than depreciation and amortisation	6,648	5,939	1,139	538	–	14,264

32 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						
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

Notes to the Financial Statements (cont'd)

31 December 2009

32 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

32 SEGMENTAL REPORTING (cont'd)**(b) Secondary reporting - Geographical segments**

Geographical markets	Revenue from external customers RM'000	Total segment assets RM'000	Capital expenditure and intangible assets incurred during the year RM'000
2009			
Malaysia	953,129	721,756	31,367
Indonesia	330,850	96,489	2,277
Other countries	16,817	–	–
	1,300,796	818,245	33,644
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

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.

33 CAPITAL COMMITMENTS

Capital expenditure in respect of the following has not been provided for in the financial statements:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Authorised and contracted for:				
- acquisition of property, plant and equipment	1,652	7,698	–	–
Authorised but not contracted for:				
- acquisition of property, plant and equipment	–	3,681	–	–

Notes to the Financial Statements (cont'd)

31 December 2009

34 CONTINGENT LIABILITIES - UNSECURED

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Corporate guarantee given to financial institution for credit facilities extended to a subsidiary company	–	–	26,423	21,960
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	11,452	16,516	–	–

35 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 individuals or other entities.

Other than disclosed elsewhere in the financial statements, the transactions with related parties were as follows:

	Group	
	2009 RM'000	2008 RM'000
(a) Sales of goods and services		
Sales of goods:		
- Related company		
• supply of medical equipment	4,474	26,373
- Company within the immediate holding company		
• sale of disinfectant range of products	1,680	1,597
	6,154	27,970
(b) Purchases of services		
Purchases of services:		
- Related companies		
• Transportation and freight forwarding services	2,562	1,960
• Provision of scheduled waste treatment and disposal services	235	114
- Companies within the immediate holding company		
• Training and administration services	591	1,003
- An associated company		
• Provision of IT consultancy, technical support services and granting of software license	18,321	24,085
	21,709	27,162

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)**(b) Purchases of services** (cont'd)

	Company	
	2009	2008
	RM'000	RM'000
Dividend income from a subsidiary company	21,990	20,700
Advances from a subsidiary company for:		
• Redemption of Murabahah Commercial Papers	16,000	–
• Redemption of Murabahah Medium Term Notes	15,000	15,000
Finance expense charged to subsidiary companies for:		
• Profit for Murabahah Commercial Papers	646	1,212
• Profit for Murabahah Medium Term Notes	1,388	2,142
	55,024	39,054

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	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Salaries, bonus and allowances	2,832	3,695	1,513	1,708
Social contribution cost	–	1	–	–
Defined benefit plans	190	2,124	120	1,969
Defined contribution plan	345	485	187	258
Estimated monetary value of benefits by way of usage of Group assets	–	1	–	1
Others	22	170	20	92
	3,389	6,476	1,840	4,028

Notes to the Financial Statements (cont'd)

31 December 2009

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(d) Significant outstanding balances

Significant outstanding balances arising from the above transactions were as follows:

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Amount due from related parties				
Subsidiary companies	–	–	167,509	171,338
Related companies	15,699	19,752	–	–
Associated companies	1,789	3,091	–	–
Amount due to related parties				
Immediate holding company	428	21	428	21
Subsidiary companies	–	–	122,420	70,832
Related companies	100	2,244	58	713
Associated companies	4,571	2,112	4,566	1,468

36 SIGNIFICANT EVENTS

Significant events of the Group during the financial year are as follows:

- The liquidation of Pharmaniaga Trading (M) Sdn. Bhd., a dormant subsidiary company of the Group was completed on 13 October 2009.
- On 4 December 2009, Pharmaniaga Berhad announced the extension of the concession related to the privatisation of the Medical Laboratory and Store of the Ministry of Health Malaysia (MOH).

In principal, MOH had agreed to extend the concession for a further 10 years, subject to terms and conditions which are to be negotiated over a period of six months from 1 December 2009. In the interim, the existing concession agreement has been continued on the current terms.

- On 29 December 2009, the Bursa Malaysia Securities Berhad ("Bursa Securities") had through its letter dated 29 December 2009, rejected Pharmaniaga's application for a further extension of time to comply with the Public Spread Requirement. In the same letter, Bursa Securities had also required Pharmaniaga to rectify the shortfall in the public shareholding spread within 3 months from 29 December 2009, failing which enforcement action may be taken against Pharmaniaga. Bursa Securities may take or impose due to a breach of Paragraph 8.02(1) of the Bursa Securities Main Market Listing Requirements ("MMLR") any type of action or penalty pursuant to Paragraph 16.19 of the Bursa Securities MMLR and suspend trading in the ordinary shares of Pharmaniaga pursuant to Paragraph 16.02 of Bursa Securities MMLR.

37 CONTINGENT LIABILITIES

Since the preceding financial year ended 31 December 2008, there are no changes in material litigation as at the date of this announcement except for the following:

(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 defensible 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.

The High Court has allowed the Company and Safire's striking out applications in relation to the counterclaim on 14 July 2009. Subsequently, Safri has filed the Notice of Appeal against the decision on 15 July 2009. The court has yet to fix any date for the case management on Safri's appeal.

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 defensible.

38 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 2009

38 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 31.12.2009		
	US Dollar RM'000	Euro RM'000	IDR RM'000
Trade receivables	–	–	45,034
Deposits, bank and cash balances	–	–	6,220
Trade payables	(2,427)	(82)	(28,740)
	(2,427)	(82)	22,514

	Currency exposure at 31.12.2008		
	US Dollar RM'000	Euro RM'000	IDR RM'000
Trade receivables	3,651	–	42,768
Deposits, bank and cash balances	5,561	–	11,470
Trade payables	(1,494)	(121)	(43,248)
	7,718	(121)	10,990

(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 of which 30% (2008: 41%) 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.

38 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.

39 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:

	2009		2008	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Group				
Financial liabilities				
Non current				
Loans and borrowings	7,429	6,280	26,238	20,111
Company				
Financial liabilities				
Non current				
Loans and borrowings	4,950	4,388	23,393	19,830

The fair values are based on cash flows discounted using a rate based on the borrowing rates of 4.16% to 12.75% (2008: 4.75% to 17.00%) per annum.

The carrying amounts of short-term borrowings approximate their fair value.

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 19 February 2010.

Group's Properties

as at 31 December 2009

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 31/12/2009 (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	15	29,677	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	12	15,450	14 March 2005
Geran 44309 of Lot 7 of Mukim Pekan Puchong Perdana and District of Petaling Selangor	A parcel of freehold industrial land with an industrial building	28,041	Freehold	9	70,183	21 August 2001
Lot PT 1157, H.S. (M) 9726 Mukim of Kajang, Hulu Langat Selangor Factory: No 11A, Jalan P/1 Kawasan Perindustrian 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	24	32,178	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	13	7,387	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 31/12/2009 (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	7/36	4,240	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	12	1,242	11 November 1998
Flat Nos. 401-405 3 rd 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	16	34	10 June 1993 and 19 July 1995
Flat Nos. 501, 503, 505 and 507, 4 th 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	14	21	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	23	19.9	4 September 1987

Group's Properties (cont'd)

as at 31 December 2009

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 31/12/2009 (RM'000)	Date of Revaluation/ Acquisition
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	23	19.9	4 September 1987
Blok D. 20 & 21 Ruko Grand Mal Bekasi	Shop lots	453/136	Freehold	6	135	13 October 2003
Jalan Depsos 67 - 70 Bintaro Jaksel	Office and warehouse	965/1,860	Freehold	17	1,119	14 January 1999 Revaluation 2001
Apartmen Permata Eksekutif Jalan Pos Pengumben Raya Jak-Bar	Shop lots	146	Freehold	6	216	6 May 2004
Jalan Kalibokor Selatan 152 Surabaya	Office and warehouse	820/1,133	Leasehold 5 years to 30 June 2011 (in progress to extend)	28	127	4 November 1971 Revaluation 2001

Analysis of Shareholdings

as at 14 April 2010

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	292	23.76	8,677	0.01
100 to 1,000	490	39.87	183,783	0.17
1,001 to 10,000	382	31.08	1,332,109	1.25
10,001 to 100,000	54	4.39	1,438,600	1.34
100,001 to less than 5 % of issued shares	10	0.81	11,146,000	10.42
5% and above of the issued shares	1	0.08	92,868,619	86.81
TOTAL	1,229	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	Amanahraya Trustees Berhad Skim Amanah Saham Bumiputra	4,740,600	4.43
3	Amanahraya Trustees Berhad Amanah Saham Didik	2,494,200	2.33
4	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	1,294,700	1.21
5	Amanahraya Trustees Berhad Sekim Amanah Saham Nasional	962,500	0.90
6	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Bank Berhad	599,700	0.56
7	Permodalan Nasional Berhad	294,700	0.28
8	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Goh Sing Bong (MP0081)	254,600	0.24

Analysis of Shareholdings (cont'd)

as at 14 April 2010

30 LARGEST SHAREHOLDERS (as per the Register of Depositors) (cont'd)

No.	Name of Shareholders	No. of Shares Held	% of Issued Capital
9	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Berhad (Life)	225,000	0.21
10	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Berhad (Non - Life)	150,000	0.14
11	HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation	130,000	0.12
12	Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Sleuths Holdings Sdn Bhd	80,000	0.07
13	Wong Nyet Lan	58,000	0.05
14	Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Melval Holdings Sdn Bhd	57,000	0.05
15	Foo Wan Kong	57,000	0.05
16	BH Insurance (M) Bhd	55,500	0.05
17	Amanahraya Trustees Berhad Amanah Saham Gemilang For Amanah Saham Pendidikan	50,000	0.05
18	Teng Wee Eng	48,000	0.04
19	Wong Lok Jee @ Ong Lok Jee	46,100	0.04
20	Lim Bee San	42,000	0.04
21	Pang Tee Chew	40,000	0.04
22	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Goldinas Sdn Bhd (M12)	40,000	0.04
23	See Lai Hah @ See Lai Har	40,000	0.04
24	Liew Wai Kiat	40,000	0.04
25	Hoh Thiam Fatt @ Hoh Yuen Fun	35,000	0.03
26	Lau Soun Tee @ Liu Soun Tee	34,300	0.03
27	Abdul Rahim Bin Bidin	30,500	0.03
28	Lim Siew Eng	30,000	0.03
29	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tiong Kiong King	30,000	0.03
30	Khor Tet Soon	29,000	0.03
Total		104,857,019	98.02

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

No.	Name of Substantial Shareholders	No. of Shares Held			
		Direct	%	Indirect	%
1	Khazanah Nasional Berhad	–	–	92,894,772 ¹	86.84
2	UEM Group Berhad	92,894,772	86.84	–	–
3	Amanahraya Trustees Berhad	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	Mohamad bin Abdullah	100	*	–	–
3	Datuk Sulaiman bin Daud	–	–	–	–
4	Emeritus Prof Wira Ir. Dr. Mohammad Noor bin Hj Salleh	–	–	–	–
5	Oh Kim Sun	–	–	177,000 ²	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 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.

NON-COMPLIANCE WITH PUBLIC SHAREHOLDING SPREAD REQUIREMENT PURSUANT TO PARAGRAPH 8.02 OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD ("Public Spread Requirement")

The Company has not at this juncture complied with the Public Spread Requirement and the Company had applied for an extension of time for rectification to Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 25 March 2010.

Bursa Malaysia had through its letter dated 29 March 2010, granted a further extension of time of 3 months from 29 March 2010 until 29 June 2010 for Pharmaniaga Berhad to comply with the Public Spread Requirement.

UEM Group Berhad, the major shareholder of Pharmaniaga Berhad is evaluating its options with regards to meeting the public shareholding spread requirement within 3 months from 29 March 2010.

As at 14 April 2010, Pharmaniaga Berhad's public shareholding spread stood at 12.96%.

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 Twelfth Annual General Meeting of the Company to be held at the Concorde 1 (Level 2), Concorde Hotel Shah Alam, 3 Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on **Thursday, 27 May 2010 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 less taxation of 25% and a special gross dividend of 10 sen less taxation of 25% for the financial year ended 31 December 2009 as recommended by the Directors.		
2	Re-election of Dato' Mohamed Azman bin Yahya as Director.		
3	Re-election of Mohamad bin Abdullah as Director.		
4	Payment of Directors' Fees for the financial year ended 31 December 2009.		
5	Re-appointment of Messrs PricewaterhouseCoopers as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.		
6	Authority to issue shares pursuant to Section 132D of the Companies Act 1965.		
7	Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		

Dated this _____ day of _____ 2010.

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, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan 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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Pharmaniaga Berhad (467709-M)

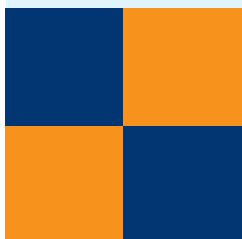
No.7, Lorong Keluli 1B

Kawasan Perindustrian Bukit Raja Selatan

Seksyen 7, 40000 Shah Alam

Selangor Darul Ehsan, Malaysia

Tel : 03-3342 9999 Fax : 03-3341 7777



www.pharmaniaga.com



PHARMANIAGA BERHAD

(Incorporated in Malaysia)

(Company No: 467709-M)

**ADDENDUM TO THE
NOTICE OF THE 12TH ANNUAL GENERAL MEETING**

To all Shareholders of Pharmaniaga Berhad

Reference is made to the Notice of the 12th Annual General Meeting of Pharmaniaga Berhad dated 5 May 2010.

We wish to inform that additional paragraphs have been inserted in the Notice of the 12th Annual General Meeting under the Explanatory Notes on Special Business, Ordinary Resolution 6 – Authority to issue shares pursuant to Section 132D of the Companies Act 1965 as follows:

**ORDINARY RESOLUTION 6 – AUTHORITY TO ISSUE AND ALLOT SHARES
PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965**

The proposed Ordinary Resolution 6 is a renewal of the general mandate for the authority to issue and allot shares pursuant to Section 132D of the Companies Act, 1965.

As at the date of this Notice, no new shares in the Company were issued pursuant to the authority granted to the Directors at the 11th Annual General Meeting held on 26 May 2009 and which will lapse at the conclusion of the 12th Annual General Meeting.

The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

BY ORDER OF THE BOARD

WONG LEE LOO (MAICSA 7001219)

NORHANA BINTI OTHMAN (LS 0008547)

Company Secretaries

Kuala Lumpur

14 May 2010



PHARMANIAGA BERHAD
(Incorporated in Malaysia)
(Company No: 467709-M)

Explanatory Notes on ERRATA
to THE DIRECTOR'S PROFILE on PAGE 18
of THE ANNUAL REPORT 2009

To all Shareholders of Pharmaniaga Berhad,

Reference is made to the Director's Profile on page 18 of the Annual Report 2009.

We wish to inform that the correct designation for Mr. Oh Kim Sun is Independent Non-Executive Director and not Non-Independent Non-Executive Director.

BY ORDER OF THE BOARD

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

Kuala Lumpur
26 May 2010

Profile of Directors (cont'd)



**EMERITUS PROF. DATO' WIRA. IR.
DR. MOHAMMAD NOOR BIN HJ. SALLEH**
Independent Non-Executive Director

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor, 62, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. He 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. He sits in the Audit Committee, Nomination & Remuneration Committee and Risk Management Committee. Emeritus Prof. Dato' Wira 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
Independent Non-Executive Director

Oh Kim Sun, 61, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 12 December 2005. He is the Chairman of the Audit Committee and a member of the Investment Committee and Nomination and Remuneration 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 36 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 the Directors have any family relationship with any other Director/or major shareholder nor conflict of interest with Pharmaniaga Berhad.
- (ii) None of the Directors have been convicted of any offences for the past 10 years (other than traffic offences, if any)