pharmaniaga

Pursuing OPPORTUNITIES

2010 Annual Report

PURSUING OPPORTUNITIES

The art of origami involves folding a flat piece of paper into an intricate sculpture through folding and sculpting techniques. The resulting product is an intricate specimen of the paper turned into a piece of art.

Like origami, Pharmaniaga Berhad adapts to change by navigating through the winds of challenges and obstacles to create resurgency. The Group retains the same fighting spirit of taking a step further by exploring boundless possibilities, constantly pursuing opportunities out there, while retaining the essence and strength of its experience and expertise.

ANNUAL REPORT 2010 CONTENTS

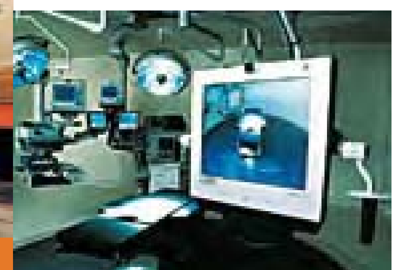
HIGHLIGHTS

CORPORATE INFORMATION

OPERATIONS REVIEW

CORPORATE RESPONSIBILITY

FINANCIAL STATEMENTS



Glumet-forte
Clarithromycin
125

our vision

The preferred pharmaceutical brand in regional markets

our mission

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

THE EDGE BILLION RINGGIT CLUB AWARDS 2010

PHARMANIAGA WAS AWARDED WITH "THE HIGHEST GROWTH IN PROFIT BEFORE TAX OVER THREE YEARS" IN THE TRADING / SERVICES, INFRASTRUCTURE PROJECT COMPANY AND TECHNOLOGY SECTOR IN THE EDGE BILLION RINGGIT CLUB AWARDS 2010.

NOTICE IS HEREBY GIVEN THAT THE 13TH ANNUAL GENERAL MEETING OF PHARMANIAGA BERHAD (467709-M) ("THE COMPANY") WILL BE HELD AT 4TH FLOOR, MENARA BOUSTEAD, 69, JALAN RAJA CHULAN, 50200 KUALA LUMPUR ON TUESDAY, 7 JUNE 2011 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 2010 together with the Reports of the Directors and the Auditors thereon.

   RESOLUTION 1

2. To re-elect the following Directors retiring in accordance with Article 73 of the Company's Articles of Association and, who being eligible, offer themselves for re-election:

   a. Tan Sri Dato' Lodin bin Wok Kamaruddin — RESOLUTION 2
   b. Dato' Farshila binti Emran — RESOLUTION 3
   c. Mr. Daniel Ebinesan — RESOLUTION 4
   d. En. Izzat bin Othman — RESOLUTION 5
   e. En. Mohd Suffian bin Hj. Haron — RESOLUTION 6

3. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2010. — RESOLUTION 7

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

   RESOLUTION 8

AS SPECIAL BUSINESS

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

5. **Ordinary Resolution**

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

   "**THAT** pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue and allot shares of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit, provided that the aggregate number of shares issued pursuant to this resolution shall not exceed ten percent (10%) 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."

   RESOLUTION 9

6. **Ordinary Resolution**

Proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature entered with persons connected to a major shareholder

"**THAT** subject to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), 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 13 May 2011) 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."

RESOLUTION 10

7. **Ordinary Resolution**

Proposed shareholders' mandate for new recurrent related party transactions of a revenue or trading nature entered with persons connected to a major shareholder

"**THAT** subject to the Listing Requirements, approval be and is hereby given to 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 and as specified in Section 2.2.2 of the Circular to Shareholders dated 13 May 2011) 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 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."

RESOLUTION 11

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

BY ORDER OF THE BOARD

SHARIFAH BINTI MALEK (LS00448)
YANTI IRWANI BINTI ABU HASSAN (MACS01349)
Company Secretaries

Kuala Lumpur
13 May 2011

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 9 – 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.

The proposed Ordinary Resolution 9 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 12th Annual General Meeting held on 27 May 2010 and which will lapse at the conclusion of the 13th 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.

Resolution 10 – 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 13 May 2011 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.

Resolution 11 – Proposed shareholders' mandate for new 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 enter into the specified recurrent related party transactions of a revenue or trading nature with related parties, particulars of which are set out in Section 2.2.2 of the Circular to Shareholders dated 13 May 2011 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 13th Annual General Meeting ("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 THE 13TH 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 73 of the Articles of Association:

   a. Tan Sri Dato' Lodin bin Wok Kamaruddin
   b. Dato' Farshila binti Emran
   c. Mr. Daniel Ebinesan
   d. En. Izzat bin Othman
   e. En. Mohd Suffian bin Hj. Haron

2. **BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

   A total of nine (9) meetings were held during the Financial Year Ended 31 December 2010 in which five (5) were Ordinary Board Meetings while the other four (4) were Special Board Meetings (*).

Date	Time	Venue
19 February 2010	10.00 a.m.	Pacific Room (Boardroom), Pharmaniaga Berhad, No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
*3 March 2010 (Special)	12.30 p.m.	Saffron Room, Symphony House Berhad, Level 1, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan
*22 March 2010 (Special)	9.00 a.m.	Santubong Room, Level 8, Mercu UEM, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur
*6 May 2010 (Special)	2.30 p.m.	Pacific Room (Boardroom), Pharmaniaga Berhad, No. 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
25 May 2010	8.00 p.m.	Saffron Room, Symphony House Berhad, Level 1, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan
*24 June 2010 (Special)	10.45 a.m.	Saffron Room, Symphony House Berhad, Level 1, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan
11 August 2010	2.00 p.m.	Pacific Room (Boardroom), Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan

Date	Time	Venue
4 November 2010	3.30 p.m.	Saffron Room, Symphony House Berhad, Level 1, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan
16 December 2010	4.00 p.m.	Saffron Room, Symphony House Berhad, Level 1, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan

3. **DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

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

Name of Director	No. of meetings attended	No. Percentage of attendance (%)
Datuk Mohamed Azman bin Yahya	8/9	89
Datuk Sulaiman bin Daud	9/9	100
En. Mohamad bin Abdullah (Resigned on 4 November 2010)	7/7	100
Mr. Oh Kim Sun	7/9	78
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	8/9	89

4 **DATE, TIME AND PLACE OF THE 13TH ANNUAL GENERAL MEETING**

Date : Tuesday, 7 June 2011

Time : 10.30 a.m.

Place : 4th Floor, Menara Boustead
69, Jalan Raja Chulan
50200 Kuala Lumpur

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

The details of the Directors seeking re-election namely Dato' Farshila binti Emran, Mr. Daniel Ebinesan and En. Izzat bin Othman are set out in their respective profiles which appear in the Profile of Directors on page 26 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 197 of this Annual Report.

The profiles of Tan Sri Dato' Lodin bin Wok Kamaruddin and En. Mohd Suffian bin Hj. Haron are set out below:

TAN SRI DATO' LODIN BIN WOK KAMARUDDIN

Non-Independent Non-Executive Chairman
62 Years of Age, Malaysian

Tan Sri Dato' Lodin has been appointed to the Board on 29 April 2011.

He graduated from the College of Business Administration, the University of Toledo, Ohio, United States of America with a Bachelor of Business Administration and Master of Business Administration. Prior to joining Lembaga Tabung Angkatan Tentera (LTAT) in 1982, he was with Perbadanan Kemajuan Bukit Fraser as its General Manager from 1973 to 1982. He has extensive experience in general management and fund management. Tan Sri Dato' Lodin is a Deputy Chairman and Group Managing Director of Boustead Holdings Berhad. He is also the Chairman of Boustead Heavy Industries Corporation Berhad, Boustead Naval Shipyard Sdn Bhd, Boustead Petroleum Sdn Bhd, Boustead Petroleum Marketing Sdn Bhd, Boustead REITS Managers Sdn Bhd, Johan Ceramics Berhad and 1Malaysia Development Berhad.

He is also Deputy Chairman of Affin Holdings Berhad and he also sits on the Boards of UAC Berhad, Affin Bank Berhad, Affin Islamic Bank Berhad, Affin Investment Bank Berhad, AXA AFFIN Life Insurance Berhad, The University of Nottingham in Malaysia Sdn Bhd and Badan Pengawas Pemegang Saham Minoriti Berhad.

EN. MOHD SUFFIAN BIN HJ. HARON

Independent Non–Executive Director
65 Years of Age, Malaysian

En. Mohd Suffian has been appointed to the Board on 29 April 2011.

He obtained his Bachelor of Economics from the University of Malaya in 1970 and did his Master of Business Administration in 1976 at the University of Oregon, United States of America, sponsored by the Ford Foundation and the Malaysian Government.

He started his career as a Diplomatic and Administrative Officer, attached to the Implementation and Coordination Unit of the Prime Minister's Department and left the Government (after 13 years of service), and served for a Government-Linked Company for 6 years. He has vast experience in the insurance, financial, securities and asset management sectors as well as trading, energy, oil and gas industries.

He currently sits as an Independent Non-Executive Director of Affin Bank Berhad, Affin Islamic Bank Berhad, Idaman Pharma Manufacturing Sdn Bhd and as Chairman of LK & Associates Sdn Bhd.

Note:

i) None of the Directors has any interest in the securities of Pharmaniaga Berhad.

ii) None of the Directors has any family relationship with any other Director and/or major shareholder nor conflict of interest with Pharmaniaga Berhad.

iii) None of the Directors has been convicted for any offences for the past 10 years (other than traffic offences, if any).

2010
FINANCIAL
HIGHLIGHTS

ENHANCING VALUE TO SHAREHOLDERS

		2010	2009	2008	2007	2006
Revenue	RM'000	1,378,348	1,300,796	1,305,646	1,183,983	1,057,868
Net Profit for the Year	RM'000	30,384	60,191	60,031	50,080	12,481
EBITDA Margin	%	4.7	7.9	8.8	8.9	5.7
Dividend Rate	%	10.0	37.0	27.0	18.0	15.0
Growth in Turnover	%	6.0	(0.4)	10.3	11.9	13.0
Growth in Net Profit	%	(49.5)	0.3	19.9	301.2	(53.6)
Dividend Payout	RM'000	37,709	21,663	19,253	16,044	12,300
Year End Share Price	RM	5.45	4.41	3.52	3.22	4.08

REVENUE

RM1.378 billion

PROFIT BEFORE TAXATION

RM45.5 million

EARNINGS PER SHARE

28.40 sen

DIVIDEND PER SHARE

10.0 sen

FINANCIAL YEAR END	31 DECEMBER 2010
Announcement of results	
1st Quarter	26 May 2010
2nd Quarter	11 August 2010
3rd Quarter	4 November 2010
4th Quarter	25 February 2011

2010 GROUP QUARTERLY PERFORMANCE

BY INDUSTRY SEGMENT

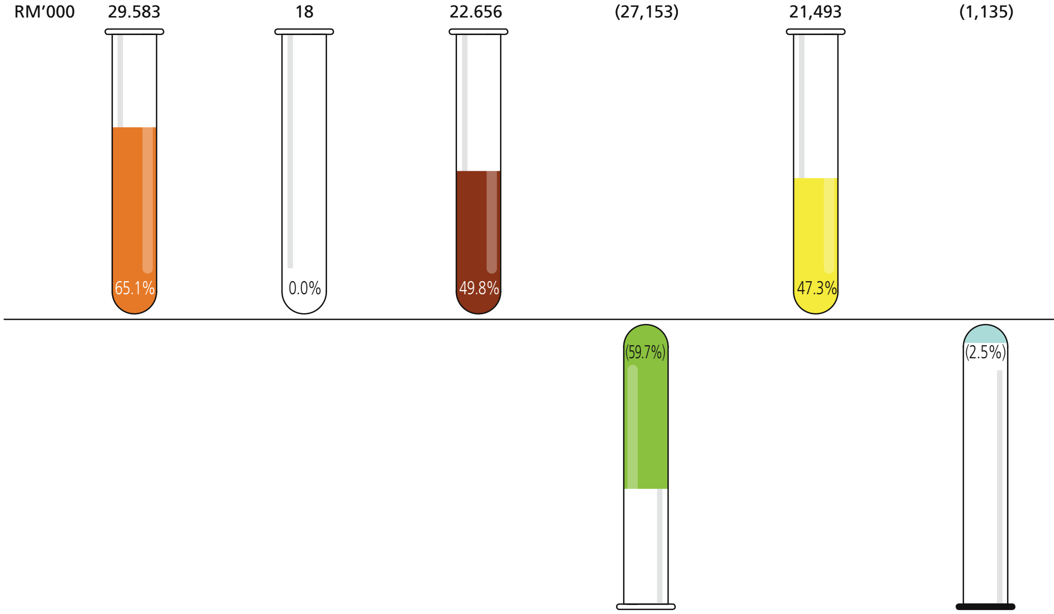
RM'000	1st	2nd	3rd	4th	Total
Revenue					
Pharmaceutical Trading, Marketing and Distribution	307,171	363,616	335,098	373,776	1,379,661
Medical Product and Services	516	211	693	4,793	6,213
Pharmaceutical Manufacturing	42,197	26,927	35,363	33,454	137,941
Other operations	3,014	1,028	971	912	5,925
Sub-total	352,898	391,782	372,125	412,935	1,529,740
Less: Intersegment sales	(35,338)	(41,447)	(37,788)	(36,819)	(151,392)
TOTAL	**317,560**	**350,335**	**334,337**	**376,116**	**1,378,348**
Profit before tax					
Pharmaceutical Trading, Marketing and Distribution	14,865	8,835	9,794	(3,911)	29,583
Medical Product and Services	(80)	(500)	(53)	651	18
Pharmaceutical Manufacturing	(307)	8,736	7,852	6,375	22,656
Other operations	(1,790)	(1,668)	(2,884)	(20,811)	(27,153)
Sub-total	12,688	15,403	14,709	(17,696)	25,104
Less: Intersegment sales	485	5,037	782	15,189	21,493
Share of results from associated company	(742)	(113)	(86)	(194)	(1,135)
TOTAL	**12,431**	**20,327**	**15,405**	**(2,701)**	**45,462**

GROUP 2010 SEGMENTAL REPORT

REVENUE	RM'000	%
Pharmaceutical Trading, Marketing and Distribution	1,379,661	100.1
Medical Product and Services	6,213	0.5
Pharmaceutical Manufacturing	137,941	10.0
Other Operations	5,925	0.4
Intersegment sales	(151,392)	(11.0)
TOTAL	**1,378,348**	**100.0%**

PROFIT BEFORE TAXATION

	Pharmaceutical Trading, Marketing and Distribution	Medical Products and Services	Pharmaceutical Manufacturing	Other Operations	Intersegment Profits	Share of Results from Associated Company
RM'000	29.583	18	22.656	(27,153)	21,493	(1,135)

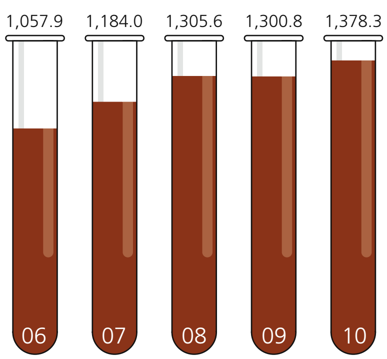


TOTAL
RM45.5
million

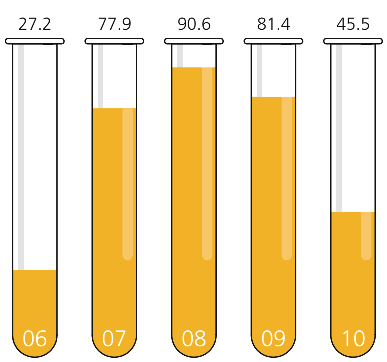
GROUP 5-YEAR FINANCIAL HIGHLIGHTS
for the years ended 31 December

		2010	2009	2008	2007	2006
FINANCIAL PERFORMANCE	**RM'000**					
Revenue		1,378.3	1,300.8	1,305.6	1,184.0	1,057.9
Profit before taxation		45,462	81,436	90,599	77,898	27,195
Profit after taxation		30,310	61,727	61,409	51,718	14,084
Profit attributable to shareholders		30,384	60,191	60,031	50,080	12,481
Earnings per share	sen	28.40	56.26	56.12	46.82	11.67
Return on equity	%	13.98	15.47	14.32	3.95	8.55
Return on assets	%	3.79	7.36	7.52	5.66	1.51
Return on revenue	%	2.20	4.63	4.60	4.23	1.18
DIVIDENDS						
Dividend payment		37,709	21,663	19,253	16,044	12,300
Net dividend per share	sen	10.0	37.0	27.0	18.0	15.0
Dividend yield - net of tax	%	1.4	3.7	4.5	3.7	2.9
Dividend cover	times	0.8	2.0	2.8	2.6	0.8
GEARING						
Borrowings		33,126	65,505	122,145	224,935	255,576
Gearing	times	0.1	0.2	0.3	0.6	0.8
Interest cover	times	16.0	22.9	18.4	10.9	6.0
OTHER FINANCIAL STATISTICS						
Net assets per share	sen	394.3	402.5	362.7	327.0	296.0
Price earning ratio	times	0.2	0.1	0.1	0.1	0.3
Paid up share capital		106,978	106,978	106,978	106,963	106,963
Shareholders' equity		421,844	430,633	388,035	349,671	316,240
Total equity		437,473	446,336	402,202	362,460	327,391
Total assets		801,880	818,245	798,318	884,849	827,785

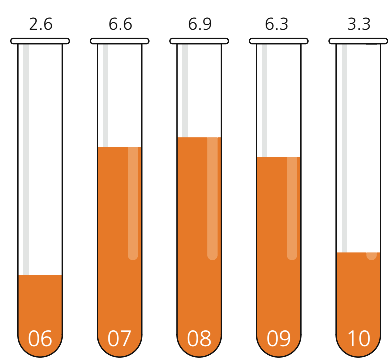
REVENUE (RM million)



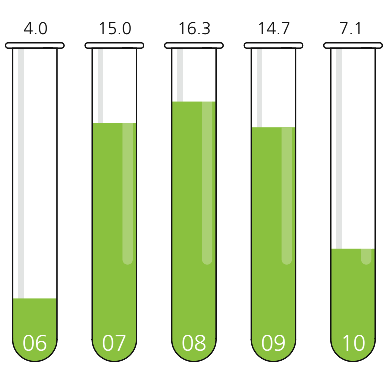
PROFIT BEFORE TAXATION (RM million)



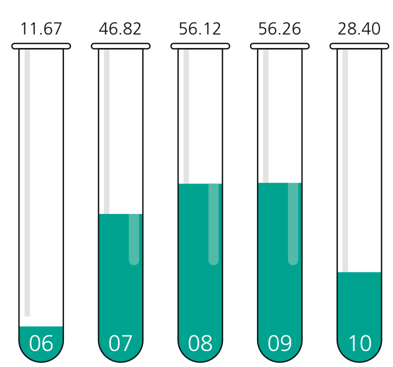
PROFIT BEFORE TAXATION MARGIN (%)



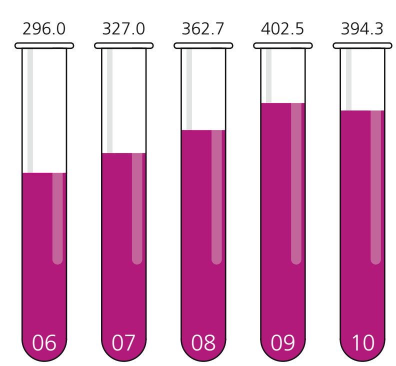
RETURN SHAREHOLDERS' FUNDS (%)



NET EARNINGS PER SHARE (sen)



NET ASSETS PER SHARE (sen)

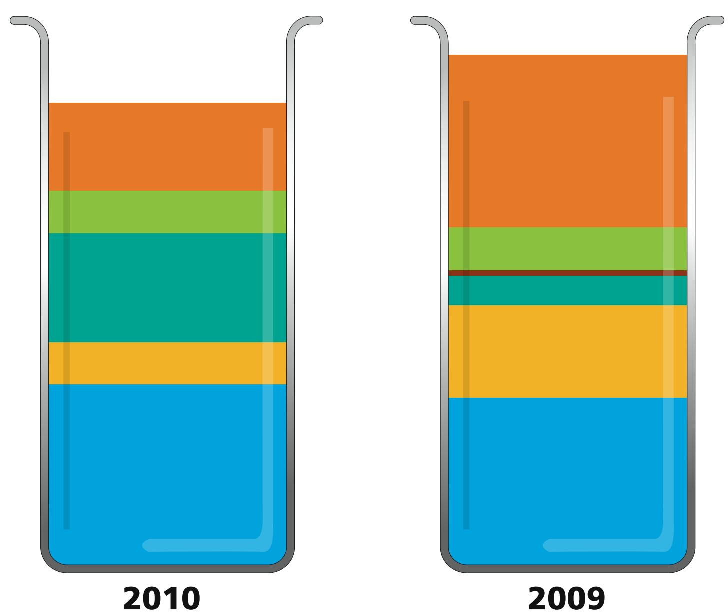


STATEMENT OF VALUE ADDED

	2010 RM'000	2009 RM'000
Revenue	1,378,348	1,300,796
Purchase of goods and services	(1,215,476)	(1,128,136)
Value added by the Group	162,872	172,660
Finance expenses (net)	(4,043)	(4,467)
Provision for impairment of goodwill	–	(1,800)
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	**158,829**	**175,961**

RM'000 (2010)

- Profit for the year **30.4**
- Depreciation/ Amortisation **14.2**
- Dividend **37.7**
- Taxation **15.2**
- Employment costs **61.5**

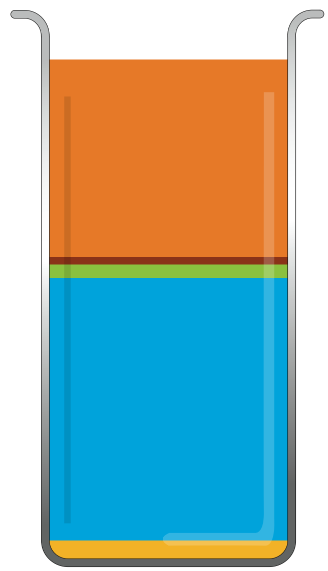


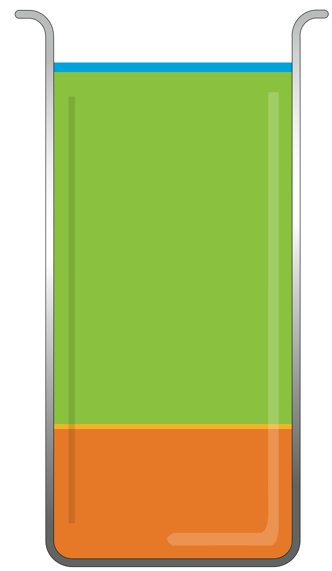
RM'000 (2009)

- Profit for the year **60.2**
- Depreciation/ Amortisation **14.7**
- Minority interest **1.5**
- Dividend **21.7**
- Taxation **19.7**
- Employment costs **58.2**

		2010 RM'000	2009 RM'000
To employees	– Employment costs	61,495	58,197
To government	– Taxation	15,152	19,709
To capital contributors	– Dividend	37,709	21,663
	– Minority interest	(74)	1,536
Retained for re-investment and future growth	– Depreciation/Amortisation	14,163	14,665
	– Profit for the year	30,384	60,191
		158,829	**175,961**

2010 EMPLOYEES & PRODUCTIVITY





Executive

	No.	%
Malay	259	61.8
Chinese	75	17.9
Indian	25	6.0
Indonesian	48	11.4
Others	12	2.9
	419	**100.0**

Non executive

	No.	%
Malay	549	39.8
Chinese	9	0.6
Indian	18	1.3
Indonesian	759	55.0
Others	45	3.3
	1,380	**100.0**

Employees by business units

	No.	%
Corporate	34	1.9
Pharmaceutical Trading, Marketing and Distribution	1,258	69.9
Medical Products and Services	15	0.8
Pharmaceutical Manufacturing	492	27.4
	1,799	**100.0**

SOARING TO GREATER HEIGHTS

Reaching our Potential

We will bring the best of our experience and expertise to continue being the nation's foremost pharmaceutical company of choice.

BOARD OF DIRECTORS

Tan Sri Dato' Lodin bin Wok Kamaruddin
(Appointed on 29 April 2011)
Non-Independent Non-Executive Chairman

Dato' Farshila binti Emran
(Appointed on 13 April 2011)
Managing Director

Mr. Daniel Ebinesan
(Appointed on 25 March 2011)
Non-Independent Non-Executive Director

En. Izzat bin Othman
(Appointed on 25 March 2011)
Independent Non-Executive Director

En. Mohd Suffian bin Hj. Haron
(Appointed on 29 April 2011)
Independent Non-Executive Director

Datuk Mohamed Azman bin Yahya
(Resigned on 29 April 2011)
Non-Independent Non-Executive Chairman

Datuk Sulaiman bin Daud
(Resigned on 29 April 2011)
Senior Independent Non-Executive Director

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh
(Resigned on 29 April 2011)
Independent Non-Executive Director

Mr. Oh Kim Sun
(Resigned on 29 April 2011)
Independent Non-Executive Director

En. Mohamad bin Abdullah
(Resigned on 4 November 2010)
Managing Director

COMPANY SECRETARIES

Puan Sharifah binti Malek (LS00448)
Cik Yanti Irwani binti Abu Hassan (MACS01349)

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad,
Main Market - Trading/Services

REGISTERED ADDRESS

28th Floor, Menara Boustead
No. 69 Jalan Raja Chulan
50200 Kuala Lumpur
Tel: +603-2141 9044 Fax: +603-2141 9750

AUDITORS

Messrs. 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

AUDIT COMMITTEE

Chairman

En. Mohd Suffian bin Hj. Haron

Members

En. Izzat bin Othman
Mr. Daniel Ebinesan

NOMINATION COMMITTEE

Chairman

En. Mohd Suffian bin Hj. Haron

Members

Tan Sri Dato' Lodin bin Wok Kamaruddin
En. Izzat bin Othman

REMUNERATION COMMITTEE

Chairman

En. Mohd Suffian bin Hj. Haron

Members

Tan Sri Dato' Lodin bin Wok Kamaruddin
En. Izzat bin Othman

SOLICITORS

Messrs. Ainul Azam & Co.
Messrs. Shahrizat Rashid & Lee
Messrs. Gananathan Loh
Messrs. Hing & Alvin Advocates & Solicitors
Messrs. Leong Yeng Kit & 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

From Left to Right:

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh Independent Non-Executive Director
Datuk Mohamed Azman bin Yahya Non-Independent Non-Executive Chairman
Datuk Sulaiman bin Daud Senior Independent Non-Executive Director

Mr. Oh Kim Sun Independent Non-Executive Director
Dato' Farshila binti Emran Managing Director
Mr. Daniel Ebinesan Non-Independent Non-Executive Director
En. Izzat bin Othman Independent Non-Executive Director

DATUK MOHAMED AZMAN BIN YAHYA

Non-Independent Non-Executive Chairman
47 Years of Age, Malaysian

Datuk Azman 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 venturing into the corporate sector, Datuk 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, Datuk 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), Ekuiti Nasional Berhad, Malaysian Airline System Berhad and PLUS Expressways Berhad. Datuk Azman also serves as a member of the National Council for Scientific Research & Development, the National Innovation Council, the Special Taskforce to facilitate Business (PEMUDAH), and the Financial Reporting Foundation.

Datuk Azman is also the Chairman of the Motorsports Association of Malaysia and a Director of Scomi Group Berhad and Sepang International Circuit Sdn Bhd. 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.

DATO' FARSHILA BINTI EMRAN
Managing Director
45 Years of Age, Malaysian

Dato' Farshila was appointed to the Board of Pharmaniaga Berhad on 25 March 2011. She has been made the Managing Director of the Company on 13 April 2011.

She sits on the Board of Idaman Pharma Manufacturing Sdn Bhd and is an EXCO member of the Malaysian Pharmaceutical Organisation Board. She also sits as an advisory committee member for women in business under the Federation of Malaysian Manufacturers and is a member of the National Association of Women Entrepreneurs of Malaysia.

She has vast experience in business development and was attached to SEVES Sediver France, a public listed company in France, which deals in high voltage transmission line equipment as Assistant Representative from 1990 to 1995 and subsequently was made a Representative until 2001.

She holds a Diploma in Office Management from MARA University of Technology and Masters in Business Administration (C) from Universiti Utara Malaysia.

DATUK SULAIMAN BIN DAUD
Senior Independent Non-Executive Director
64 Years of Age, Malaysian

Datuk Sulaiman has been the Senior Independent Non-Executive Director of Pharmaniaga Berhad since 15 November 2001. He is also the Chairman of the Investment Committee, Nomination and 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 Chairman of Ranhill Power Berhad and Director of Malaysia National Insurance 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 Universiti Putra Malaysia and the Chairman of the Malaysia Syria Business Council as well 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 Universiti 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 Fontainbleau, France. He spends a considerable part of his time now seeking and developing business opportunities in Asean and the Middle East primarily.

EMERITUS PROF. DATO' WIRA IR. DR. MOHAMMAD NOOR BIN HJ. SALLEH
Independent Non-Executive Director
63 Years of Age, Malaysian

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh is an Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 15 November 2001 and sits in the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee.

Prior to his present position as a Professor in the Kulliyyah of Engineering of the International Islamic University of Malaysia, he was the President of Kuala Lumpur Infrastructure University College and 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.

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.

MR. OH KIM SUN
Independent Non-Executive Director
62 Years of Age, Malaysian

Mr. Oh Kim Sun 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. Mr. 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 39 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. Mr. 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.

MR. DANIEL EBINESAN
Non-Independent Non-Executive Director
65 Years of Age, Malaysian

Mr. Daniel Ebinesan was appointed to the Board of Pharmaniaga Berhad as a Non-Independent Non-Executive Director on 25 March 2011.

He is a Fellow of the Chartered Institute of Management Accountants (CIMA) and a member of the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA).

He joined Boustead Holdings Berhad in April 1974 as the Group Accountant. In January 1982, he was promoted to Group Chief Accountant and subsequently in January 1993, he was promoted as the General Manager, Finance & Administration. In July 1996, Mr Ebinesan assumed the role of Chief Financial Officer and currently holds the position of Director, Financial Services for the Group. He is responsible for all financial matters including acquisition of strategic businesses, treasury, risk management strategies and formulation of the Boustead Group's financial policies and tax planning.

He sits on the Board of Boustead REIT Managers Sdn Bhd which manages Al-Hadharah Boustead REIT, Malaysia's first and only Islamic plantation REIT. He has been a member of the Board of Trustees of Kumpulan Wang Simpanan Kakitangan Estet Malaysia since 1996 and has served as Chairman of the Board of Malaysian Care from November 1988 to March 2011.

EN. IZZAT BIN OTHMAN
Independent Non-Executive Director
50 Years of Age, Malaysian

En. Izzat was appointed as an Independent Non-Executive Director to the Board of Pharmaniaga Berhad on 25 March 2011. He is a lawyer by profession and is a partner of the law firm of Messrs. Azzat & Izzat.

He graduated with an LLB (Hons) in April 1985 from Universiti Malaya. Subsequently, he was admitted as an Advocate and Solicitor on 25 January 1986.

He was formerly a Director of AFFIN Securities Sdn Bhd and BH Insurance Berhad and has vast experience relating to litigation, conveyancing and corporate matters. He sits as Chairman and committee member for the Disciplinary Committee of the Malaysian Bar as well as Board of Directors for several private companies.

Note:

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

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

EXPANDING TOWARDS BORDERLESS HORIZONS

Reenergising our Presence

At the end of the day, our quest and commitment is to continue providing reliable, affordable healthcare of the highest quality.

DEAR SHAREHOLDERS,

2010 HAS BEEN A MIXED YEAR FOR PHARMANIAGA BERHAD – WE SAW POSITIVE CORPORATE DEVELOPMENTS AND HEALTHY OPERATIONAL IMPROVEMENTS BUT WE ALSO FACED SEVERAL CHALLENGES. NEVERTHELESS WE HAVE SQUARELY FACED AND DEALT WITH THE CHALLENGES AND LOOKING AHEAD, ARMED WITH A FRESH MANDATE FROM THE GOVERNMENT AND WITH THE NEW CONTROLLING SHAREHOLDER, WE ARE ON A STRONGER FOOTING TO DELIVER VALUE TO ALL OUR STAKEHOLDERS.

With that backdrop and on behalf of the Board of Pharmaniaga, I am pleased to present the Annual Report and Audited Financial Statements of the Group for the financial year ended 31 December 2010.

CORPORATE DEVELOPMENTS

We went into 2010 having just announced the agreement by the Ministry of Health ("MOH") to renew our Concession for the supply of pharmaceutical products for a further 10 years from 1 December 2009. As you will be aware, we completed our first concession term of 15 years on 30 November 2009. The Concession essentially is the right to purchase, store, supply and distribute approved drugs and medical products to Government hospitals as part of the Government's effort to consolidate and promote efficiency therein.

The Government's consent to renew the Concession shows their confidence in our services and supports our aspiration to improve the national healthcare system for the benefit of the people. This renewal was the most important milestone for your Company in recent times. It provides Pharmaniaga with a steady and growing business that provides the core operation to build our other activities in the pharmaceutical value chain.

We achieved the Good Manufacturing Practice ("GMP") accreditation by MOH for our new world-class injectable manufacturing facility, Pharmaniaga LifeScience, in August 2010. Having successfully obtained our first product licence in December 2010, production started in January 2011 and our products will be making their market debut in the coming year. We are positioning our new RM149 million LifeScience plant in Puchong as a regional world-class facility to produce Small Volume Injectables ("SVI") fills and finish contract manufacturing for global pharmaceutical giants.

In last year's report we mentioned the unexpected temporary suspension of our manufacturing licence for our Bangi plant. This came about when our licence was revoked on 1 March 2010 due to certain instances of non-compliance found during a routine audit by the Pharmaceutical Services Division of MOH. However, we managed to address the audit issues in a relatively short time and following a satisfactory follow-up audit on GMP certification, the manufacturing license was re-issued on 15 March 2010. As I said at the time, the impact of the license revocation was minimal on our revenue since our manufacturing arm only contributes approximately 10% of the Group's turnover.

Nonetheless, we have taken this incident very seriously and the lessons learnt are strictly applied to ensure our manufacturing processes are rigorously monitored and comply fully with the standards. Towards this end, the Quality 5S system was implemented across the Group. 5S, consisting of five Japanese words Seiri, Seiton, Seiso, Seiketsu and Shitsuke, is a practical system to create a better workplace in order to generate more productivity. Due in part to the quality initiatives undertaken, we successfully underwent a triple re-certification audit by SIRIM in November 2010 in all three of our Quality Management Systems-ISO 9001 for Quality, ISO 14001 for Environment and ISO 18001 for Health & Safety.

In Indonesia, our public listed subsidiary, PT Millennium Pharmacon International Tbk ("MPI") suffered a major setback in late 2009 when it lost its biggest principal, PT Merck. Nevertheless we quickly added two new principals during the year under review. Although these new principals were relatively smaller compared with PT Merck, we are confident that MPI will be able to recover fully from the loss of PT Merck by 2012. With the benefit of tighter controls, a flatter organisational structure, improved collections and support from our bankers, we are poised to expand our business and take advantage of Indonesia's growing economy and healthcare sector.

As you would have heard from our announcements and in the press, Boustead Holdings Berhad ("Boustead") proposed to acquire the UEM Group Berhad's entire 86.81% equity interest in Pharmaniaga. Boustead intends to maintain the listing status of Pharmaniaga and we have been granted a further extension of time of six months from 29 December 2010 until 28 June 2011 to comply with the public spread requirement of 25%. As at 31 January 2011, Pharmaniaga's public shareholding spread stood at 13.06%. The change in the major ownership augurs well for Pharmaniaga's vision and strategy for the future and further strengthens our resolve to grow our business, add value, and reward all our stakeholders.

Our theme for the Annual Report this year, 'Pursuing Opportunities', is reflected in our daily endeavours as we adopt new techniques to enhance productivity, initiate collaborations for research and development, and explore new markets abroad. Though today a well-established enterprise, the Group retains a pioneering spirit, constantly examining new ideas and taking steps forward towards reaching our goal to be the top regional healthcare company.

THE PHARMACEUTICAL AND HEALTHCARE INDUSTRY IN MALAYSIA

Malaysia's pharmaceutical market is driven by an expanding economy, increasing income and an ageing population. The market expanded by 6.4% to RM4.57 billion (US$1.40 billion) in 2010 and is expected to maintain a growth of 6.76% annually between 2009 and 2019 in local currency terms.

The industry will also benefit from a reduction in the approval period by the MOH for the registration of pharmaceutical products with single ingredients from six months to 60 days effective in 2011. This change in the regulatory framework is part of the Government's effort to encourage growth in the industry and promote investment into manufacturing plants and research and development facilities.

Private healthcare facilities continue to flourish on the strength of domestic demand as Malaysia's per capita income climbs. Furthermore the Government is encouraging medical tourism through, amongst other initiatives, increasing tax incentives for healthcare service providers who serve foreign health tourists.

All these measures provide the necessary impetus for Malaysian pharmaceutical and healthcare companies to grow with the local market.

FINANCIAL PERFORMANCE

Revenue for the 2010 financial year rose to RM1.38 billion, an improvement of 6% over the previous year, benefiting from higher MOH sales. Gross profit margin for the year under review narrowed slightly to 14.8% from 15.7% recorded last year. The reduction was due to increases in contract supplier costs for the concession business, though this was mitigated by improvement in production efficiency and cost control.

Profit before tax contracted by 44.2% to RM45.5 million, from RM81.4 million recorded in 2009, as a result of a provision of RM20.0 million for slow moving product, Oseltamivir (sometimes commonly referred to as Tamiflu), coupled with an increase in administration, selling and distribution expenses.

BY REMAINING FOCUSED ON MAXIMISING WELLNESS AND MINIMISING ILLNESS, WE RECLAIM LIFE'S CYCLE OF HEALTH.

The antiviral Oseltamivir was purchased during the height of the H1N1 pandemic in 2009 in anticipation of increased demand from the market. To recapitulate, the first case of what would later be identified as Swine-Origin Influenza A (H1N1) Virus Infection in Malaysia was identified on 15 May 2009 and the first death in the country was on 23 July 2009. With the threat of more cases imminent and public concern over the availability of drugs should the pandemic worsen, Pharmaniaga managed to secure supplies of the antiviral to meet the anticipated demand, in line with the many Government initiatives directed towards curbing the pandemic including higher budget allocations for H1N1 control related products. However contrary to popular predictions then, the pandemic was rather muted and well controlled due to the global coordination effort. Whilst this was a huge relief for the public and governments around the world, it adversely affected pharmaceutical companies that produce and carry the antiviral drugs.

With the pandemic behind us, we decided to take the prudent step of making a provision for the remaining stock we still hold. This is an adjustment that unfortunately has had a deleterious impact upon our 2010 results. The provision notwithstanding, we shall take all steps necessary to dispose of the remaining stocks of Oseltamivir and recover our costs.

STRENGTHENING OPERATIONS

The Pharmaniaga Group operates in four core businesses namely generic pharmaceutical manufacturing, sales and marketing, warehousing and distribution of pharmaceutical and medical products as well as the supply, trading and installation of medical and hospital equipment.

In manufacturing, our production throughput was better compared to last year delivering revenue of RM138.0 million, an increase of 31.4%. Improved internal efficiencies and productivity proved essential to mitigate the impact of increased costs selling, distribution and personnel costs. The gains we have made in all these areas are now showing through and will help us sustain this momentum next year.

In sales and marketing, our Commercial Division recorded growth of 11% for active products though overall revenue declined due to the discontinuation of several therapeutic ranges. The sales teams were realigned to focus more closely on market segments designated as Primary Care, Specialty Care and Biopharma. 80% of our international sales in 2010 went to 7 major countries where we have tapped a competitive advantage. Those countries were Vietnam, Indonesia, Myanmar, Singapore, Hong Kong, Sri Lanka and Cambodia.

In warehousing and distribution, sales by the Logistics Division hit a record RM1 billion, a 12% increase over 2009, with the largest component coming from the MOH Approved Product Purchase List. We also invested in additional racks in our warehouses to ensure sufficient space was available to carry the buffer stock levels stipulated by the MOH.

Our Medical Product & Services Division which carries out the medical and hospital planning and equipment supply business was affected by the winding down of the Government's procurements under the 9th Malaysia Plan 2006-2010. Our first contract with the Ministry of Defence to supply RM4.02 million worth of medical equipment opens a new chapter and looking ahead we are pleased to see private healthcare highlighted as a National Key Economic Area for 2011 by the Government.

OUR PATH FORWARD IS ABOUT FIGHTING LOOMING EPIDEMICS, WHERE PHARMANIAGA COMES AS A FORCE AND FORTE.

FOCUSING ON THE ENVIRONMENT, THE COMMUNITY AND ORGANISATIONAL DEVELOPMENT

As I mentioned earlier, our Quality Management Systems for Quality, Environment and Health & Safety successfully underwent an audit by SIRIM in November 2010. The re-certification audit is conducted every three years to ascertain compliance to ISO standards.

Pharmaniaga is not just about doing business, but rather a practice of doing business with a conscience and enriching life together. The Group seeks to enrich the lives of the needy and less fortunate while at the same time embraces national aspirations that aim to enhance national unity and economic development. The Group's community service project known as Skuad Operasi Sihat ("SOS") is a mobile clinic that performs health screening and provides education and awareness for promoting a healthy lifestyle in rural and marginalised populations. Since its inception, 100 SOS missions have been carried out with 30,000 people benefiting from this programme.

We are committed to the development of our people to ensure their career success and bring about immediate and long-term sustainable benefits to the organisation. In order to automate training administration, a vital step to ensure we operate more proficiently, our Learning Management System was launched in March 2010. Our people are now empowered to take ownership of extending their knowledge and skills and can self-enroll for a variety of training modules creating their personal learning plans for the whole year.

Teambuilding sessions during the year to incorporate the values of Teamwork, Open Communication, Passion For Excellence, Integrity and Honesty and Care ("TOPIC") as part of our High Performance Culture initiative built a sense of camaraderie and 'esprit de corps' amongst the participants.

The Group's battle cry for 2011 is R.I.S.E. (Reigniting Inspirations Striving for Excellence). The slogan rallies each individual to step up to achieve performance excellence in every aspect of the business. An internal branding initiative, R.I.S.E evokes an inspiring vision of the Group soaring to greater heights in the new decade, motivating our people to 'rise' up to achieve our objectives, maximise profitability, and ensure sustainable growth.

OUR FUTURE

Under the 10th Malaysia Plan 2011-2015 ("10MP"), MOH will, in its endeavour to transform healthcare, enforce quality care in both public and private sectors and review financing options to manage rising costs to ensure healthcare remains accessible and affordable. 197 new clinics costing RM637 million will be completed in the first half of the 10MP: 156 clinics in rural areas and 41 community health clinics. 50 additional '1Malaysia' clinics will be set up in urban poor and other underserved areas.

Four new and four replacement hospitals costing RM600 million will be completed in the first two years of the 10MP. They include the National Cancer Institute and the Cheras Rehabilitation Centre. Existing healthcare providers will be mapped to identify gaps that need filling to streamline health service delivery. Mobile clinics, flying doctor services and village health promoters will be expanded to remote areas. All these initiatives will benefit those companies who are ready to embrace the transformation.

Competition will remain robust particularly in the private market segment but we have already put in place strategies and initiatives to grow market share in our core businesses. Pharmaniaga has worked hard to capture additional operating efficiencies, and we are financially capable of making the most of the opportunities which present themselves in the coming year.

Stiff competition especially in the generic drug market means margins for manufacturers will remain thin. We are therefore on the lookout for potential acquisition targets overseas that may offer higher returns. We are seeking entry into new South East Asian markets and hope to introduce more new generic products over the next five years in a bid to become a regional generic pharmaceutical manufacturer. We hope to see a balanced earnings contribution from both local and international markets over time.

IN APPRECIATION

On behalf of the Board, I thank most sincerely all our staff for their loyalty and support during the past year. I have no doubt that we can rely on their continuing commitment to meet the challenges that lie ahead. I would also like to thank our financiers, our partners, the many Government authorities that we deal with and last but not least our customers. I record with sincere appreciation the contribution and leadership of En. Mohamad bin Abdullah, our Managing Director, who resigned and left us in November 2010.

May I take this opportunity to thank my fellow board members for their valuable insights and thoughtful advice that have guided us towards achieving our corporate goals to date. I take great pleasure in welcoming our new line of directors – Dato' Farshila binti Emran, Mr. Daniel Ebinesan, and En. Izzat bin Othman who will no doubt lend their experience and enthusiasm in addressing both the opportunities and challenges that lie ahead for the Group. I also welcome our new controlling shareholder Boustead as they take the helm in 2011.

By the time of the Annual General Meeting, the existing directors namely Datuk Sulaiman bin Daud, Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh, Mr. Oh Kim Sun and I, would have vacated our positions on the Board of Pharmaniaga to make way for the new nominees representing Boustead and the new independent directors.

I would like to take this opportunity to thank you, the shareholders, for giving us your support whilst we were in office. And I wish Pharmaniaga all the best in its future endeavours and I am most confident of the Company achieving even more under the Boustead Group and the stewardship of the new Board of Directors.

Yours faithfully,

AZMAN YAHYA

CHARTING A NEW COURSE

Repositioning our Leadership

Together we remain focused on optimising our available resources in delivering greater value with efficiency and effectiveness to our customers.

INTRODUCTION

THE MALAYSIAN CODE ON CORPORATE GOVERNANCE (REVISED 2007) ("THE CODE") WHICH SERVES AS A GUIDING PRINCIPLE FOR THE BEST PRACTICES OF CORPORATE GOVERNANCE ON STRUCTURES AND PROCESSES, STEERS A COMPANY'S CONDUCT IN MANAGING ITS BUSINESS AFFAIRS.

The Board of Directors of Pharmaniaga ("the Board") in recognising corporate governance as an evolving idea, a process of continuous improvement that any entity should focus on as the foundation and framework to manage the business of the organisation, continues to pursue its commitment in withholding the highest standard of corporate governance towards achieving its ultimate objective of realising long term shareholder value, without disregarding the interests of other stakeholders.

With its collective and overall responsibility in leading and directing Pharmaniaga's strategic affairs, the Board 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.

The Board is therefore pleased to report to the shareholders on the manner Pharmaniaga has applied the principles and the extent to which it has complied with the best practices as laid down in Part 1 and Part 2 of the Code respectively.

1. BOARD OF DIRECTORS

The Board assumed the following six responsibilities in discharging its stewardship responsibilities:

- Reviewing and adopting a strategic plan for the company;
- Overseeing the conduct of the company's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
- Developing and implementing an investor relations programme or shareholder communications policy for the company; and
- Reviewing the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Composition of the Board

The Board of Pharmaniaga currently has seven (7) members with one (1) Non-Independent Non-Executive Chairman, four (4) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors with caliber, credibility and the necessary skills and experience to bring an independent judgement of Pharmaniaga's business conduct. The Board is aware of the required right blend of skills, knowledge and business experience given the size and nature of the business of Pharmaniaga. A profile of each Director is set out on pages 26 to 29 of this Annual Report. There was one (1) resignation during the financial year under review and the following Directors were appointed to the Board:

a. Dato' Farshila binti Emran

b. Mr. Daniel Ebinesan

c. En. Izzat bin Othman

The skills and experience of the members of the Board encompass a diverse professional background of finance, engineering, business administration, legal and pharmaceutical industry.

Process of Appointment to the Board

Pharmaniaga has established formal and transparent procedures for appointment of new Directors. The Nomination and Remuneration Committee scrutinizes the sourcing and nomination of suitable candidates for 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.

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 to ensure the Board's discussions are conducted in such a way that all views are taken into account before 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 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 development.

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 interests of the Company and its shareholders by working to enhance the Company's performance.

The Board had on 1 September 2010 approved for the formation of an Executive Committee ("EXCO") to assume the functions and authority of the then Managing Director, in view that this is a critical position and the operation of the Company shall continue as usual, due to the absence of the Managing Director of the Company who was on a long leave at that point of time. The EXCO reports directly to the Board.

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 conducts in relation to the Corporate Governance, its relationship with the shareholders, employees, creditors and customers as well as its social responsibilities.

Operation of the Board

The Board has established Board Committees to support its functions and responsibilities. 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 Committees' meetings are listed as follows:

Executive Committee (EXCO)

Members	Meeting Attendance
Datuk Mohamed Azman bin Yahya	5/6
Datuk Sulaiman bin Daud	5/6
Mr. Oh Kim Sun	5/6
Puan Roshidah binti Abdullah	6/6

Audit Committee

Members	Meeting Attendance
Mr. Oh Kim Sun	4/4
Datuk Sulaiman bin Daud	4/4
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	3/4

Risk Management Committee

Members	Meeting Attendance
Datuk Sulaiman bin Daud	2/2
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	2/2
En. Mohamad bin Abdullah (Resigned on 4 Nov 2010)	1/1

Nomination and Remuneration Committee

Members	Meeting Attendance
Datuk Sulaiman bin Daud	3/3
Emeritus Prof Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	3/3
Mr. Oh Kim Sun	2/3

Investment Committee

Members	Meeting Attendance
Datuk Sulaiman bin Daud	3/3
Mr. Oh Kim Sun	3/3
En. Mohamad bin Abdullah (Resigned on 4 November 2010)	3/3

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

Executive Committee (EXCO)

- To manage the operations of the Company, including the cash flow and funding of the Company.
- To review the progress and achievement of the implementation of special exercise(s) undertaken by the Company and, where relevant, any of the Pharmaniaga Group of Companies.
- To review the strategic initiatives of the Company and, where relevant, the strategic initiatives of any of the Pharmaniaga Group of Companies, including, if necessary, a review and revision of the Annual Operating Plan of the Company and, where relevant, of any of the Pharmaniaga Group of Companies, to set targets and milestones for the Senior Level Critical Mission Positions of the Company and, where relevant, of any of the Pharmaniaga Group of Companies.
- To track the progress of the execution of the Annual Operating Plan (or, the revised Annual Operating Plan, as the case may be) of the Company and of each of the Pharmaniaga Group of Companies.
- To review and track deliverables, efficiency, productivity and improvement of the Company and of the Pharmaniaga Group of Companies.
- To review the overall manpower planning, including but not limited to making recommendation to the Nomination and Remuneration Committee on hiring, extending service contract as well as terminating the service contract of senior officers of the Company and of the Pharmaniaga Group of Companies.
- To review the expenditure and implementation with respect to all matters relating to Capital Expenditure and Operating Expenditure of the Company and of the Pharmaniaga Group of Companies.

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 and 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 and Remuneration or other Committees.
- To identify and recommend Senior Management position i.e Chief Operating Officer and Chief Financial Officer 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, to review the terms of reference of the Committee and recommend the changes to the Board.
  - to review other investment matters as the Board deems appropriate and in the best interest of the Company.

Board Meetings

The Board meetings are scheduled in advanced and during the Financial Year ended 31 December 2010, the Board held five (5) regular meetings and four (4) Special Board meetings, as detailed below:

Date of Board Meetings	Attendance by Independent Directors	Attendance by Non-Independent Directors	Total Numbers
19 February 2010	2/3	2/2	4/5
3 March 2010 (Special)	3/3	2/2	5/5
22 March 2010 (Special)	3/3	2/2	5/5
6 May 2010 (Special)	3/3	2/2	5/5
25 May 2010	3/3	2/2	5/5
24 June 2010 (Special)	3/3	2/2	5/5
11 August 2010	2/3	1/2	3/5
4 November 2010	3/3	1/1	4/4
16 December 2010	2/3	1/1	3/4

The details of the respective Directors' attendance at the above Board Meetings are as follows:

Directors	Type	Meetings Attendance
Datuk Mohamed Azman bin Yahya	Non-Independent Non-Executive Chairman	8/9
En. Mohamad bin Abdullah (Resigned on 4 November 2010)	Managing Director	7/7
Datuk Sulaiman bin Daud	Senior Independent Non-Executive Director	9/9
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	Independent Non-Executive Director	8/9
Mr. Oh Kim Sun	Independent Non-Executive Director	7/9

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 2010, the Board reviewed and/or approved and considered, 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/Director of Finance & Corporate Services lead 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 four (4) Independent Non-Executive Directors who are independent of Management and free from any business relationships that could materially interfere with exercise of their independent judgement.

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

Directors' Training

The Board believes that continuous training for Directors is essential to the Board members to gain insight into the pharmaceutical industry, state of economy, technology advances, regulatory updates and management strategies to enhance the Board's skills and knowledge to 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 on 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, except for Dato' Farshila binti Emran and En. Izzat bin Othman (the newly appointed Directors), have completed the Mandatory Accreditation Programme (MAP) and during the year, the Directors have from time to time attended trainings.

Re-appointment and Re-election of Directors

The Articles of Association of Pharmaniaga Berhad provide that all Directors are required to go forward for re-election by shareholders at the Annual General Meeting ("AGM") at intervals of no more than 3 years, together with all new Directors appointed since the previous AGM.

The Articles of Association also state that one-third of the Directors retire from office at each 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. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement Accompanying 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 of Bursa Malaysia. This ensures the Directors' commitment, resources and focus for an effective input to the Board.

Directors' Remuneration

The Nomination and 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 of the Company at the AGM.

Further details of Directors' remuneration are set out below and in Note 6 to the Financial Statements on page 146 of this Annual Report.

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 and Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for a similar position in a selected group of comparable companies.

b Fees

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

c Bonus Scheme

The Company operates a bonus scheme for all employees, including the Managing Director. The criteria for the scheme is dependent primarily on the level of profit achieved from the Company's business activities as measured against the targets and that of previous year, together with an assessment of each individual's performance during the period. Bonus payable to the Managing Director is reviewed by the Nomination and 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/her 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 2010 are is follows:

Directors	Basic Salaries, Bonus & EPF (RM)	Fees (RM)	Allowance, Perquisites & other emoluments (RM)	Benefits-in-kind (RM)	Total (RM)
Executive Director	438,172	–	54,174	5,400	497,746
Non-Executive Directors	–	270,000	121,800	-	391,800
Total	**438,172**	**270,000**	**175,974**	**5,400**	**889,546**

The remuneration paid to Directors of the Company for the financial year ended 31 December 2010, in bands of RM50,000 is tabulated as follows:

Remuneration Band	No. of Directors Executive	Non-Executive
RM50,000 and below	–	–
RM50,001 – RM100,000	–	3
RM100,001 – RM155,000	–	1
RM400,001 – RM500,000	1	–

Note: None of the Directors' remuneration falls within the RM155,001 – RM400,000 band.

Whistle Blower Policy

As the Board strongly believes that a Whistle Blower Policy in place would strengthen, support good management and at the same time demonstrate sound corporate governance practices, promote accountability, good risk management and increase the investors' confidence in the Company, a Whistle Blower Policy was established and approved in 2008.

This Whistle Blower Policy provides a platform and 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 their 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.

2. SHAREHOLDERS

Pharmaniaga is committed in 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, which contents are continuously enhanced to take into account developments in corporate governance practices, amongst others.

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.

Further, the timely releases of financial results, in line with Main Market Listing Requirements of 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 website (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. The highlights of the Company's operational and financial performance which is made via visual presentation is made by the Chairman and Managing Director at the AGM.

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 operational and financial 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 a Question and Answer session.

3. ACCOUNTABILITY & AUDIT

Financial Reporting

The Board is committed to provide and present 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.

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.

Information on the Group's Internal Control is presented in the Statement of Internal Control pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia as set out on page 54 of this Annual Report.

Relationship with External Auditors

The Board maintains a transparent and professional relationship with the Auditors, through the Audit Committee, who is 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 Financial Reporting Standards in Malaysia.

The appointment of the External Auditors is subject to the approval of shareholders at the AGM, 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.

4. OTHER COMPLIANCE INFORMATION

Related Party Transactions

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 34 to the Financial Statements on page 185 of this Annual Report.

Non-Audit Fees

The total amount of non-audit fees paid and payable to external audit firms by Pharmaniaga Berhad's subsidiary, PT Millennium Pharmacon International Tbk for the financial year ended 31 December 2010 amounted to equivalent RM92,194.

Sanctions and/or Penalties

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 MOH. However, Pharmaniaga managed to address the audit issues in a relatively short time. Following a satisfactory follow-up audit on the Good Manufacturing Practices on 10 March 2010, the manufacturing license was re-issued on 15 March 2010.

RESPONSIBILITY STATEMENT IN RESPECT OF THE FINANCIAL YEAR UNDER REVIEW

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

The Board is fully accountable to ensure 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 Financial Statements.

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 REQUIREMENTS OF BURSA MALAYSIA IN RELATION TO APPLICATION OF PRINCIPLES AND ADOPTION OF BEST PRACTICES LAID DOWN IN THE CODE

(Pursuant to paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia)

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 of Bursa Malaysia.

This Statement on Corporate Governance has been approved by the Board of Directors on 12 April 2011.

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 making 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 shareholder 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 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 controlled 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 approved 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 the National Pharmaceutical Control Bureau, SIRIM 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. The Group adopted the Balance Scorecard quadrants ("FCIO") to measure the KPIs achievements through PMS online:

- Financial ("F")
- Customer ("C")
- Internal Business Process ("I")
- Organisational Learning & Growth ("O")

FCIO provides a framework to translate and align Group's strategy into measurable operational terms and is being used as a business unit and corporate performance measurement tool. This system has been implemented on employees at the executive and managerial level.

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 pivotal 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 staff are competent and adequately trained in carrying out their duties and responsibilities.

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 were deliberated. Strategies and action plans were then reviewed and mandates were given to Management by the Board to carry out the agreed strategies and action plans.

Based on strategies identified, the Annual Operating and Five-Year Business Plans together with KPIs were drawn up and approved by the Board on 16 December 2010. 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 guide the Group in achieving its vision of becoming among the preferred brand in healthcare. 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 serve to increase efficiency and places assurance on the effectiveness of the system of internal control embedded in the process of awarding tenders.

Insurance

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

GROUP INTERNAL AUDIT

The Group Internal Auditors from UEM Group Management Sdn Bhd ("UEMGM") continues to provide the internal audit support function to the Audit Committee and the Board during the year. The internal audit activities undertaken by UEMGM are in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The Internal Auditors have 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 and 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 Committee 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

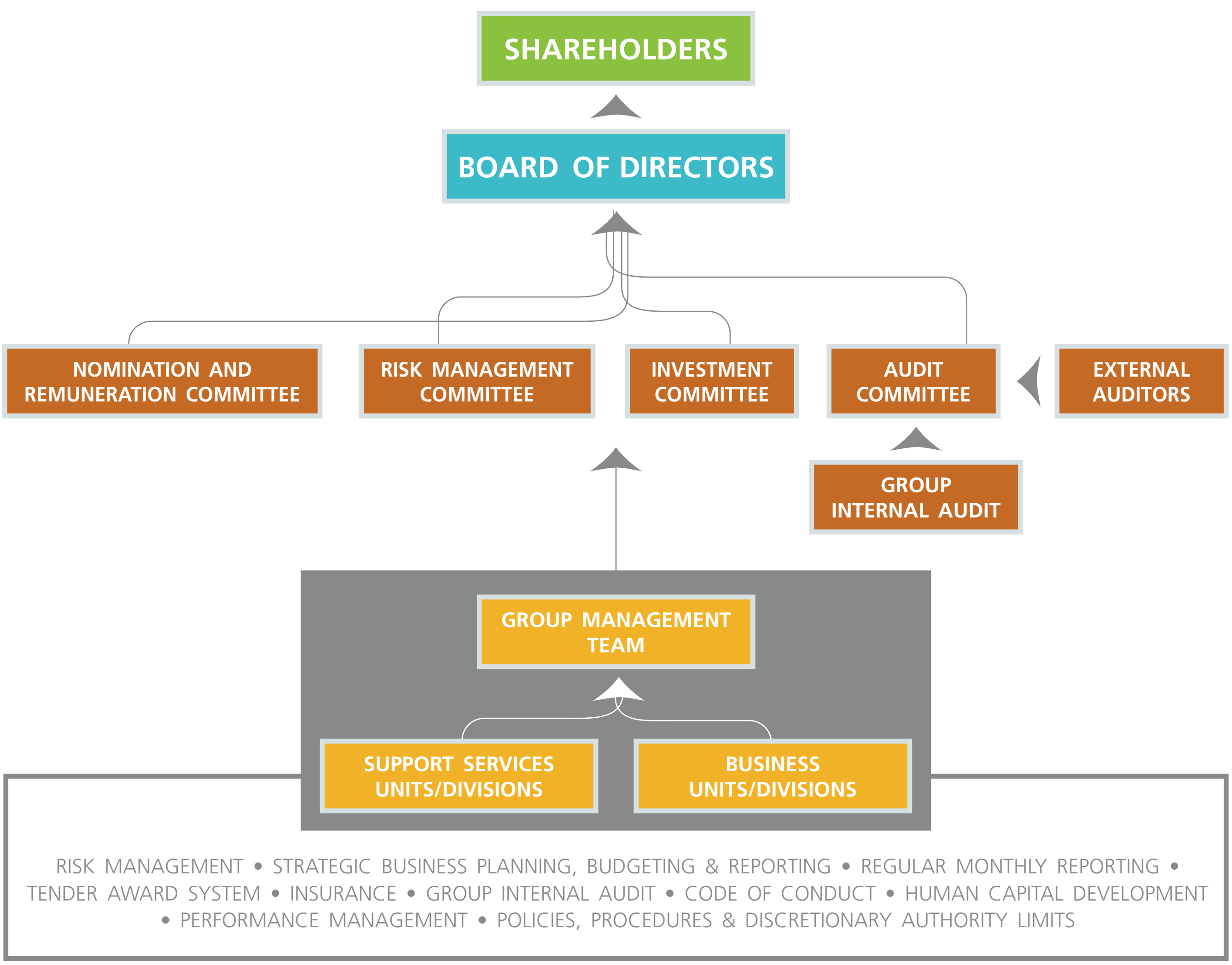
For the financial year under review, some weaknesses in internal control were detected. However, after due and careful inquiry and based on the information and assurance provided, the Board is satisfied that there were no material losses as a result of weaknesses in the system of internal control, that 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 inclusion in the Annual Report of the Company for the year ended 31 December 2010 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.

This Statement on Internal Control is made in accordance with the resolution of the Board of Directors dated 12 April 2011.

INTERNAL CONTROL FRAMEWORK OF PHARMANIAGA BERHAD GROUP



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.

MANAGEMENT TEAM

KEY INTERNAL CONTROL ELEMENTS

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").

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 Group Corporate Finance 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 Sdn Bhd ("UEMGM") 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 ever 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.

The Group's risk management system is linked to the Group's internal control system, thus providing the Group an efficient and reliable decision making tool.

MEETINGS

The RMC had two meetings during the financial year ended 31 December 2010. Representative from Group Internal Audit from UEMGM 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")

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.

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's 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 KPIs
  – 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, reputation 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 UEMGM. 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 Group's risk management processes involve establishing the context of risk in relation to the Group and thereon risk identification, analysis, evaluation and treatment. Throughout this process, there is continuous monitoring and review, communication and consultation. The process is illustrated as follows:

RISK MANAGEMENT FRAMEWORK PROCESS

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

- Likelihood of the risk crystalising

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 (Revised 2007).

In August 2010 and January 2011, the RMWGC and management jointly updated the risk register and risk management action plans.

The RMC met twice during the year in September 2010 and February 2011 to review Group's risk profile and progress of the action plans for 2010. The RMC tabled its report to the Board of Directors in September 2010 and February 2011.

SUMMARY OF RISKS FOR THE YEAR	
Total existing risks	65
New risks identified	4
Deletion of risks	(2)
TOTAL RISKS	67

RISK RATING	
Significant	13
Moderate	35
Medium Low	17
Low	2
TOTAL RISKS	67

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. MOH has agreed to extend the concession for a further 10 years and the agreement has been signed between the Government of Malaysia ("the Government"), represented by MOH and Pharmaniaga on 16 March 2011.

  Logistics has to comply with the new service level agreement stipulated in the new concession agreement, which non- compliance will lead to penalty imposed by the Government. The Group assessed the risk of an adverse effect on its business operations as significant at present and various actions have been taken to mitigate the risk.

- Manufacturing and Marketing Business Risks

  In 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.

  In view of the new small volume injectables plant in Puchong which has started its commercialisation in 2011, the Group has expanded its market penetration strategy including overseas markets where Europe and South East Asia regions have been identified as priority markets. Ongoing risk monitoring is conducted to actively review the economic conditions and its impact to the business and the effectiveness of risk mitigation measures.

- 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 financial risks. The Group assessed the risk of an adverse effect on its business operations arising from the above risks as low at the moment.

THE BOARD OF DIRECTORS OF PHARMANIAGA BERHAD IS PLEASED TO PRESENT THE REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR 2010.

MEMBERSHIPS AND MEETINGS

The Audit Committee presently comprises three (3) members of the Board who are all Independent Non-Executive Directors. This is in line with the Malaysian Code on Corporate Governance (Revised 2007) ("the Code") and also in accordance with Paragraph 15.09 (1) (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") which requires that all members of the Audit Committee to be Non-Executive Directors, with majority of them being independent directors.

The members of the Audit Committee are:

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

During the financial year under review, the Audit Committee held four (4) 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:

Composition of Committee	Meetings Attended	%
Mr. Oh Kim Sun Chairman/Independent Non-Executive Director	4/4	100
Datuk Sulaiman bin Daud Member/Independent Non-Executive Director	4/4	100
Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh Member/Independent Non-Executive Director	3/4	75

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.

SUMMARY OF ACTIVITIES

During the financial year 2010, the Audit Committee carried out its duties in accordance with its terms of reference.

Financial Reporting

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

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 Securities;

– applicable approved accounting standards in Malaysia; and

– other relevant legal and regulatory requirements.

In the review of the annual audited financial statements, the Audit Committee discussed with Management and the External Auditors the accounting principles and standards that were applied and their judgement of the items that may affect the financial statements.

Internal Audit

- Reviewed and approved Group Internal Audit's ("GIA") 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 2010 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 Audit 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 External Auditors.
- Met with the External Auditors without the presence of Management to discuss any matters that they wished 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's 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.

INTERNAL AUDIT FUNCTIONS

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.

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 than 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 present.
  - Engage continuously with Managing Director, Chief Financial Officer 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.

SHAPING ON STRATEGIC RELEVANCE

Realigning our Objectives

Our wide array of life-affirming products will have the scale, depth, science and reach to help build the future in a healthier world.

LOGISTICS (MALAYSIAN OPERATIONS)

THE LOGISTICS DIVISION ACHIEVED RECORD REVENUE OF RM1 BILLION IN 2010, A 12% CLIMB FROM RM893 MILLION REGISTERED IN 2009. THE LARGEST COMPONENT OF THE REVENUE CAME FROM THE MINISTRY OF HEALTH APPROVED PRODUCT PURCHASE LIST (MOH APPL) SECTOR THAT REGISTERED SALES OF RM810 MILLION, A GROWTH OF 10% OVER THE PRIOR YEAR. OTHER SEGMENT RESULTS CONTRIBUTING TO THE RISE IN REVENUE INCLUDED MOH TENDER (RM126 MILLION), INSTITUTIONS (RM58 MILLION), NON-APPL (RM19 MILLION), B. BRAUN (RM11 MILLION), DISTRIBUTORSHIPS (RM5 MILLION) AND INTERNATIONAL – BRUNEI (RM4 MILLION).

The world's availability of medication to every corner of the globe will be determined not by the efficiency of logistics, but by its effectiveness in delivering within time.

APPL sales were built upon top line products such as DTap-IPV/HiB vaccine that was rolled out to the whole country on 1 January 2010, following its successful introduction into 8 pilot states in 2009, and accounted for RM48 million of revenue.

Our active participation in non-APPL MOH tender business in 2010, particularly for patented drugs, was the driver leading the Logistics Division to achieve a higher revenue.

Space utilisation at the original warehouse at Bukit Raja was improved by creating an additional level of racking that added 300 plus pallets space. Furthermore at the new warehouse building another racking system was installed adjacent to the Automated Storage Retrieval System (ASRS) and Quarantine Area providing 1,600 plus pallets space. The combined additional storage space was necessary to be in compliance with MOH's policy.

The throughput rate, defined as the total value of deliveries plus receipts divided by the total warehouse floor space, at the Bukit Raja warehouse, increased 10% attributable to the higher revenue in 2010 that drove up the volume of stocks and deliveries to customers. All three of our warehousing branches at Juru, Kota Kinabalu and, in particular, Kuching recorded better throughput rates in 2010.

THROUGHPUT RATES

BUKIT RAJA

RM1,170

/sq-ft in 2010
from RM1,065/sq-ft in 2009

JURU

RM1,580

/sq-ft in 2010
from RM1,150/sq-ft in 2009

OUTLOOK

The availability of stocks with the right quality and quantity at the right warehouse locations at all times is critical in determining compliance with the stock levels prescribed in the new Concession Agreement with MOH. In relation to this requirement, all three branches will upgrade their cold room storage space and respective generator sets in order to meet the given standards for cold chain products.

The Malaysian Government is very much committed to its principle of universal access to high-quality healthcare that MOH offers through wide variety of nationwide networks of clinics and hospitals. Our mission is to provide maximum support to medical practitioners in the public and private healthcare sectors in the country.

KOTA KINABALU

RM619

/sq-ft in 2010
from RM481/sq-ft in 2009

KUCHING

RM737

/sq-ft in 2010
from RM372/sq-ft in 2009

LOGISTICS (INDONESIAN SUBSIDIARY)

IN INDONESIA, OUR PUBLIC LISTED SUBSIDIARY, PT MILLENNIUM PHARMACON INTERNATIONAL TBK (MPI) SUFFERED A MAJOR SETBACK THIS YEAR WHEN ITS BIGGEST PRINCIPAL, PT MERCK DECIDED TO CEASE USING MPI'S SERVICES IN DISTRIBUTING ITS PRODUCTS IN INDONESIA EFFECTIVE 1 JANUARY 2010. MERCK HAD ACCOUNTED FOR 28% OF MPI'S ANNUAL REVENUE. DESPITE MERCK'S WITHDRAWAL, MPI HAS SUCCESSFULLY REDUCED THAT SHORTFALL BY ADDING TWO NEW PRINCIPALS AS WELL AS WORKING CLOSER WITH EXISTING PRINCIPALS TO INCREASE THEIR MARKET PRESENCE. THIS EXERCISE HAS RESULTED IN MPI SUCCESSFULLY REDUCING THE TURNOVER DEFICIT FROM 28% TO 15%.

MPI's sales continue to be driven mainly through principals that are in the Ethical segment, with these principals enjoying average market growth of between 12% to 15%, while the industry's overall growth is approximately 12%. In the Over The Counter (OTC) and Medical Devices segments, two of MPI's principals continue to be the market leaders in their respective fields, recording growth above the market average. As a whole, the Indonesian market is seeing a strong surge in both the OTC and Medical Devices segments with average industry growth exceeding 20%.

Operationally, MPI has increased efficiency through tighter controls, better monitoring and by introducing a flatter organisational structure. As a result of these changes, MPI has reduced its headcount by 5%, trimmed operating expenditure by 7% and improved daily collection to IDR3 billion. Renewed support and confidence from the banking community culminated in an established international bank extending banking facility to MPI. This was an important endorsement as it underlined an increased confidence in the leadership of MPI and recognition of the backing the subsidiary company enjoys from parent company Pharmaniaga Berhad.

OUTLOOK

Moving forward, MPI is evaluating the viability of opening additional premises throughout Indonesia to strengthen the current network of 29 branches. This expansion plan will allow MPI to build a wider presence to further support the growth aspirations of its principals at a time when the rally in the Indonesian economy is affording the public easier access to healthcare. MPI will also continue to source additional quality principals in order to increase our product offerings to our market network of 20,000 hospitals, pharmacies, drugstores and clinics in Indonesia.

FOCUSED ON EFFICIENCY AND EFFECTIVENESS, WE WORK TIRELESSLY TO GET MORE BREAKTHROUGHS TO MORE PEOPLE, FASTER.

MEDICAL PRODUCTS & SERVICES

PHARMANIAGA'S MEDICAL PRODUCTS & SERVICES DIVISION CARRIES OUT THE MEDICAL AND HOSPITAL PLANNING AND EQUIPMENT SUPPLY BUSINESS. AS GOVERNMENT SPENDING ON HOSPITAL DEVELOPMENT PROJECTS REACHED A CONCLUSION EARLY IN THE YEAR WITH THE END OF THE NINTH MALAYSIA PLAN 2006-2010 (9MP), THERE WAS A KNOCK-ON EFFECT ON THE DIVISION'S REVENUE WHICH DECLINED TO RM6.53 MILLION COMPARED TO RM14.45 MILLION ACHIEVED IN 2009.

+

Our One-Stop Solutions for the procurement of medical and non-medical equipment brings together the special needs, knowledge and sensitivities of all parties to deliver to customers' technical requirements, within their budget and time-frame.

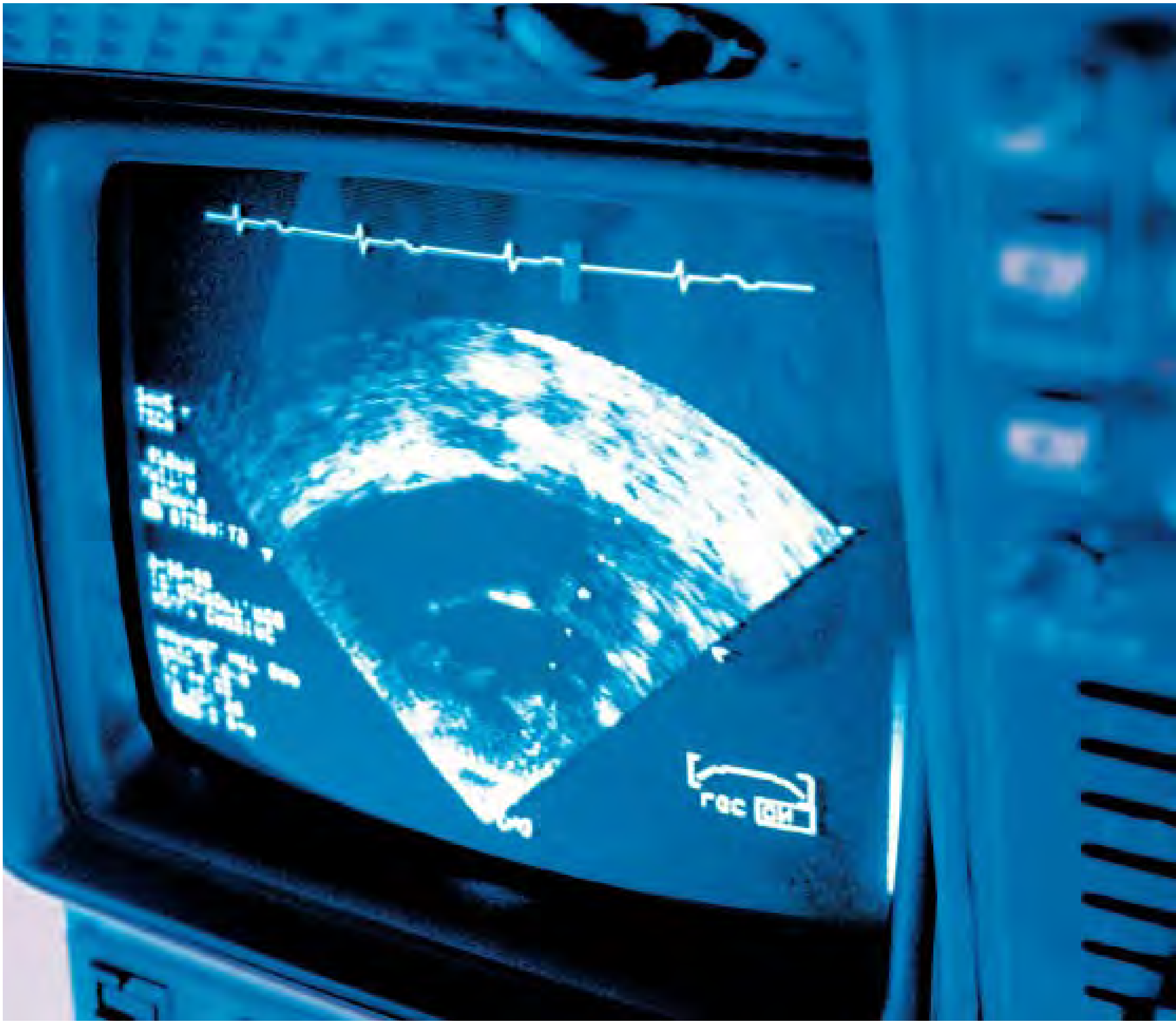
Other non-9MP contracts were successfully implemented during the year. The Division completed the supply of medical and non-medical equipment for the Ar-Ridzuan Medical Centre in Ipoh, Perak. The University Malaya Medical Centre extended the rental contract of the ventilator deployed in their H1N1 prevention programme. We also secured our first contract with the Ministry of Defence to supply RM4.02 million worth of medical equipment.

Our ongoing venture to expand the business has made us realise the importance of fortifying our core competencies. This year, emphasis was given to project management and procurement as competency in project management ensures that projects are completed within the specified time frame with no additional costs, while an effective procurement system contributes directly to margin improvement and the performance of the Division.

OUTLOOK

We remain optimistic for the future vitality of the business environment in which we are operating. The Government's planned spending in healthcare under the Tenth Malaysia Plan (10MP) will continue to provide ample opportunities for our growth in Malaysia. Pharmaniaga's other activities in overseas markets, such as Myanmar, Indonesia and Vietnam, provide the Medical Product & Services Division with the right platform to plan their entry into the international marketplace.

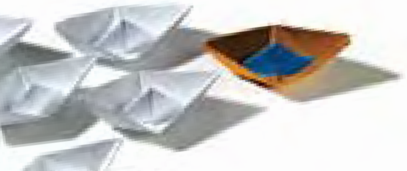
THROUGH THE CONTINUAL INVESTMENT OF THE FUTURE, OUR TECHNOLOGICAL EDGE IS MONITORING ALL STAGES OF HEALTH.



MANUFACTURING

THE MANUFACTURING DIVISION ACHIEVED REVENUE OF RM138 MILLION, WHICH REPRESENTED A 31.4% INCREASE OVER RM105 MILLION RECORDED IN 2009. THE COMPANY ALSO SAW GROWTH IN ITS PROFIT BEFORE TAXATION WHICH INCREASED BY 21.0% TO RM23 MILLION FROM RM19 MILLION IN THE PRIOR YEAR.

Ideally, we want everyone, everywhere to have access to reliable, affordable healthcare, and to trust in the quality and safety of their medication.



The Division continued its drive towards operational excellence through efficient plant utilisation, a campaign to reduce wastage and cost saving initiatives. In March 2010, the manufacturing licence of the plant was revoked following a routine audit by MOH. Immediate attention was focused on addressing the issues raised by the audit to ensure compliance with standards and the licence was reinstated on 15 March 2010.

The lesson learned from this experience has resulted in a heightened awareness and renewed zeal to be vigilant in the pursuit of management and organisational excellence with the aim of achieving quality in every sense of the word. To drive these objectives forward, we embarked on a variety of initiatives, including increasing awareness of Good Manufacturing Practice (GMP), through effective communications, enhancing the effectiveness of our training programmes, and conducting technical and personal development programmes.

Due in part to the quality initiatives undertaken, we successfully underwent a triple re-certification audit by SIRIM in November 2010, passing with flying colours in all three of our Quality Management Systems, ISO 9001, ISO 14001 and ISO 18001 which are the systems for Quality, the Environment and Health & Safety respectively. The re-certification audit is conducted every three years to ascertain compliance to ISO standards.

OUTLOOK

The Manufacturing Division will continue to focus on initiatives to reduce costs and maximise resource utilisation, as well as enhancing efficiency. The continuous improvement of key operations will be undertaken by a number of programmes, including: enhancing production efficiency through effective management and scheduled maintenance and timely refurbishment of equipment; upgrading procurement by improving systems; effective manpower utilisation through proper planning of production lines; and quality management reviews to reduce production process cycle times.

WITH THE RIGHT APPROACH IN COHESIVENESS, WE HAVE THE INGREDIENTS TO ACCELERATE THE MARCH OF MEDICAL ADVANCES.

LIFESCIENCE

LIFESCIENCE DIVISION HAS OPENED ITS NEW PUCHONG FACTORY PHARMANIAGA LIFESCIENCE (PLS), A WORLD CLASS FACILITY FOR THE PRODUCTION OF INJECTABLE MEDICINES. AS A CONTRACT MANUFACTURER, THE FACTORY WILL PRODUCE MEDICINES FOR MALAYSIA AND INTENDS TO EXPORT HIGH QUALITY PHARMACEUTICALS TO EUROPE AND AMERICA. CURRENT CAPABILITIES INCLUDE THE MANUFACTURE OF AMPOULES AND VIALS WITH A CAPACITY OF MORE THAN 35 MILLION UNITS PER YEAR. IN LINE WITH THE COMPANY'S OPERATING PLANS, FUTURE EXPANSION WILL INCLUDE MAJOR INVESTMENTS IN NEW TECHNOLOGY TO ACHIEVE ITS STRATEGIC PLAN OF BECOMING THE LEADING PHARMACEUTICAL INJECTABLES MANUFACTURER IN THE REGION.

Malaysia's number one integrated pharmaceutical Company announces the opening of its world class facility for the production of injectable medicines.

Everything is in place for the start of commercial production in January 2011 and the facility has been approved by the MOH. The National Pharmaceutical Control Bureau has inspected the factory and confirmed that the operation is in compliance with the requirements of Good Manufacturing Practice ("GMP"), meeting the exacting international standards for the manufacturing of pharmaceuticals. This milestone achievement now allows the Company to move quickly towards commercialisation by providing products for Malaysia and to attract contracts from International Multi-National Pharmaceutical and Biotech Companies.

The team at Pharmaniaga LifeScience have worked hard over the last 20 months and are proud of achieving a facility that has some of the best technology and quality systems in the world to supply Malaysian hospitals with product of the highest quality. A high performance team has been trained to market pharmaceutical products that the world will look up to for quality and customer service. Making medicine, particularly injectable products, carries with it a huge responsibility for quality and presents a great technical and managerial challenge. This is one of the most highly regulated industries in the world and we intend to establish a reputation ranked among the best for quality and service.

OUTLOOK

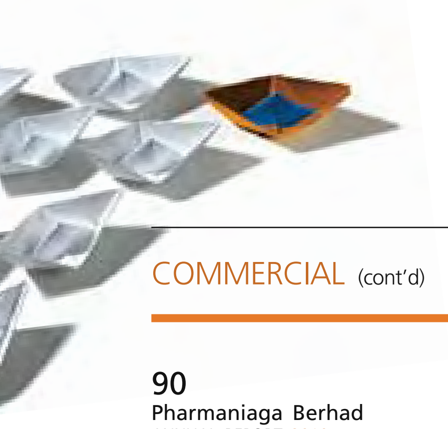
We are now ready to establish an international presence and reputation as a pharmaceutical manufacturer. With production started and the GMP licensing of the facility resolved, business development efforts are now the major focus, and these are progressing well.

PHARMANIAGA LIFESCIENCE IS POISED TO BECOME THE CONTRACT MANUFACTURER OF CHOICE, DELIVERING GREATER VALUE TO ITS CUSTOMERS.

COMMERCIAL

THE MALAYSIAN PHARMACEUTICAL MARKET GREW BY 6.8% IN 2010 TO RM3.98 BILLION, AND THE COMMERCIAL DIVISION, OWING TO ITS STRATEGIC PRODUCT POSITIONING, RECORDED A SIGNIFICANT 9% GROWTH IN SALES IN THE DOMESTIC NON CONCESSION MARKET.

We envision the enhancement of better health for Today – That remains our quest and commitment to the world. We endeavour the empowering of life for your Tomorrow.



At the start of the year we restructured our sales force into 3 units with specific product offerings: Primary Care, Specialty Care and Biopharma. The realignment repositioned us to be more focused in delivering added value to each customer segment and to grow market shares strategically and more swiftly.

We added to our core Primary Care product range during the year and more offerings were established with the introduction of new blister packaging. Among the success stories for the Primary Care portfolio was the achievement of three leadership positions in the domestic front. The star products were Pharmaniaga Bacampicillin, Pharmaniaga Cephalexin and Oral Rehydration Salt (ORS) which brought in a combined sales value of over RM4.5 million.

As for the Specialty Care range, a rewarding year was kicked off with a very successful launch of our new anti-obesity product, Cuvarlix (Orlistat), which surpassed the half million ringgit sales mark within the first 6 months of presentation to the market. Other Specialty Care range of products also showed tremendous growth. Sales of Covinace (Perindopril) raced ahead by 211%, Xylid (Cefuroxime Axetil) soared by 61%, and Pharmaniaga Chlarithromycin increased by 21%.

The new approach of technical selling for different categories of product proved to be effective at disseminating our marketing message about the efficacy of our products.

In addition, our Biopharma marketing unit started to make good progress in preparing to market biosimilar or follow-on biologic products. Currently, through an in-licensing initiative, we have submitted our first biosimilar product for registration for sale in the domestic market. Biopharmaceuticals will be our key strategic approach for future expansion as globally the market is estimated to be worth more than USD100 billion and is expected to grow faster than the overall pharmaceuticals market.

International sales, as expected, faced an uphill task due to resilient competition and other limiting factors. The approach taken by the International team for 2010 was to continue to focus on growing our core business in the 7 major countries that contributed more than 80% of our international sales in 2009 where we know we have a competitive advantage. Those countries were Vietnam, Indonesia, Myanmar, Singapore, Hong Kong, Sri Lanka and Cambodia.

To achieve their goals, the International Sales Unit has fine tuned its strategy to be more country specific and also to be more aggressive in registering new products. As a result, we enjoyed tremendous growth in several of our target key countries: Singapore (213%), Sri Lanka (144%) and Myanmar (27%).

OUTLOOK

Looking ahead, we have mapped out an ambitious plan to venture into markets beyond ASEAN. We are studying prospects in the Middle East, Africa, North Asia and Latin America and have collected extensive information through our active participation in International Congresses such as the Convention of Pharmaceutical Ingredients ("CPhI") Shanghai, CPhI Buenos Aires and CPhI Paris. As a result of our market research, we have garnered valuable leads and are now working on them to establish our presence in countries that hold out the most potential.

The Commercial Division is therefore well prepared for an aggressive expansion phase in the near future based on our current strategic positioning. New product launches and penetration into new countries will be the crucial steps to ensure our objectives are met and that we deliver the planned growth at attractive margins.

OUR QUEST OF QUALITY REMAINS PRIORITY IN OUR BRANDS AND PRODUCTS, TO STAND THE TEST OF GLOBAL COMPETITIVENESS.

RESEARCH & DEVELOPMENT

PHARMANIAGA BERHAD HAS STEADILY AND STRATEGICALLY EVOLVED FROM A RELIABLE PRODUCER OF DOSAGE FORMS TO A RESEARCH-FOCUSED COMPANY WITH AN EMERGING REGIONAL BASE. AT THE NEW PHARMANIAGA RESEARCH CENTRE ("PRC") AT BUKIT RAJA, SHAH ALAM AND AT OUR FACILITY IN BANGI, 27 RESEARCHERS ARE BREAKING NEW GROUND IN PHARMACEUTICAL RESEARCH IN THEIR SCIENTIFICALLY CHALLENGING QUEST TO DEVELOP NEW PRODUCTS FOR SALE IN MALAYSIA, THE ASEAN REGION AND THE WORLD.

We bring the best scientific minds together, providing solutions to challenge the most feared diseases of our time, for a brighter promise of a future for generations to come.

The focus of Research and Development ("R&D") is on a number of areas, including:

- Preformulation Studies
- Formulation Development
- Process Development
- Analytical Development and Validations
- Bio-equivalence Studies
- Phytomedicines

At PRC, our new product development programme includes identification and characterisation of the reference drug, information on drug product, patent and regulatory review, pre-formulation studies, excipient compatibility studies, analytical methods development and validation, formulation development and optimisation, formal stability studies and bio-equivalence studies.

The formulation development is carried out according to the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use ("ICH") and ASEAN Guidelines and requires regulatory submission of technical dossiers. At PRC, we also have a quality programme dedicated to continuous improvement of product quality of running products at a dedicated R&D site.

The PRC facility is equipped with formulation and analytical equipment to enable the scientists to work on a variety of product development projects. The analytical laboratory has an ISO 17025 accreditation from the Department of Standards Malaysia (DSM).

Laboratory-scale batches are subjected to stability as per ICH norms. The complete documentation of the laboratory data is presented in a format compliant with ASEAN standards or the regulatory requirements of targeted markets.

At PRC, we understand that a sound infrastructure meeting global standards is an essential part of achieving our deliverables. Our laboratories are well-equipped to handle:

- Tablets, immediate release
- Tablets, controlled or sustained-release
- Tablets, enteric coated
- Capsules, hard gelatin or cellulose (not from animal source), filled with powder, granules or pellets
- Oral liquids and suspensions
- Semi-solid dosage forms
- Liquid injectable
- An ICH-compliant stability management programme for testing stability

We are committed to do bio-equivalence studies to demonstrate that our products have a similar bio-availability profile to that of the innovator product.

OUTLOOK

Focusing on our core competencies, we will continue to concentrate on developing and registering new off-patent generics. In line with the Government's focus on biotechnology, we will also enhance and develop our capabilities and participation in the industry and Malaysian herbal remedies front.

New product design and development is a crucial factor in the success of the Group. In an industry that is changing rapidly, we must continually revise the design and update the range of our products. This is necessary due to continuous technological development as well as other competitors' activities and the changing preferences of customers.

IN A COLLABORATION OF STRONGLY FOCUSED RESEARCH UNITS, WE ARE MOVING TO UNPRECEDENTED ENHANCING CAPABILITIES.

FORMULATING FOR FUTURE SUSTAINABILITY

Rebuilding our Priorities

In life, we will continue to be a contributing factor for an environment that balances the quality of living today for tomorrow.

COMMUNITY ENGAGEMENT

CORPORATE RESPONSIBILITY AT PHARMANIAGA HAS INVOKED A CULTURAL TRANSFORMATION IN THE COMPANY AS WE INTEGRATE OPEN AND TRANSPARENT BUSINESS PRACTICES THAT ARE BASED ON ETHICAL VALUES AND RESPECT FOR THE COMMUNITY, EMPLOYEES, THE ENVIRONMENT, SHAREHOLDERS AND OTHER STAKEHOLDERS INTO OUR OPERATIONS AND DECISION MAKING. IT IS DESIGNED TO DELIVER SUSTAINABLE VALUE TO SOCIETY AT LARGE. VITALLY, IT INVOLVES COMMUNICATING THE COMPANY'S ACTIONS TO OUR STAKEHOLDERS AND ENCOURAGING THEIR FEEDBACK AS ONLY IN THIS WAY CAN WE MAINTAIN A DYNAMIC AND RELEVANT VISION.

We will need to change and prioritise as we go along, find what works best for our business, for society and the environment, and be committed to the path we take. We are aligning our business practices and decisions with what is beneficial to the society, the environment and ourselves.

HEALTHCARE OUTREACH

As a company operating in the healthcare arena we naturally enjoy a close rapport with agencies working in the medical field and in 2010 we supported a range of such associations and contributed to appeals for help from our fellow citizens. One such occasion was at the launch of "Tabung Pulih Kasih," a fund which will provide financial support for a drug suppression therapy programme managed by University of Malaya Centre for Addiction Sciences (UMCAS) to rehabilitate drug addicts.

At the health carnival organised by MOH, we made a contribution towards a Charity Dinner in aid of the mentally handicapped held by the Selangor & Federal Territory Association for the Mentally Handicapped. We also sponsored 256 tickets worth RM15,000 for "Adam the Musical" arranged by the Malaysian Aids Council (MAC). To raise funds for the rehabilitation of stroke survivors, we made a contribution of Innoherb from our consumer healthcare range to the National Stroke Association of Malaysia (NASAM) and supported the Malaysian Medical Relief Society (MERCY) Fundraising Dinner.


Metabolic syndrome is a combination of medical disorders that increases the risk of developing cardiovascular disease and diabetes. Changing diets and lifestyles have seen the increase of metabolic syndrome in Malaysia. Drawing attention to the risks, World Diabetes Day is the primary global awareness campaign for diabetes. In November 2010, our Skuad Operasi Sihat ("SOS") Team in collaboration with the Department of Health, Negeri Sembilan and the Malaysian Pharmaceutical Society (Negeri Sembilan Chapter) commemorated the event by donating medicine and medical consumables used for community health screening at Dataran Kemang, Port Dickson.

The population, in particular the indigenous people, living in the rural areas of the country, as opposed to the urban, often have less access to healthcare services. We have therefore entered into a 2-year collaboration (2011-2012) committing RM70,000 to MERCY for arranging an oral and dental health awareness and screening programme for the Orang Asli community in Pos Kemar, Perak. Supporting the next generation of medical talents, we also sponsored the community health project by the students of the International Medical University (IMU) Clinical School, held in Batu Pahat, Johor.

A HELPING HAND TO THE POOR AND DISADVANTAGED

The poor, particularly widows and orphans, and the sick and disabled, are targeted beneficiaries of our support. We reached out to the homeless in collaboration with UEM "Emerging Leaders' Programme" with the distribution of food and the offer of a health check through SOS. Our involvement went directly to the provision of food supply for 600 homeless in Kuala Lumpur and donation-in-kind of medicine. In anticipation of the Hari Raya celebration, we shared our joy and blessings with over 100 orphans by contributing food and clothing to cheer up their Raya spirits.

A contribution of Citrex Vitamin C was made for the programme "Kejohanan Kayak Akar Jerlun 2010" organised by the office of the Member of Parliament for Jerlun in collaboration with the Ministry of Youth & Sports and the Kayak Association of Malaysia. In Penang, a contribution to purchase food for the poor was managed by Liga Muslim Pulau Pinang. Our involvement with the programme "Cakna Kesihatan" with the community of Kampung Sungai Terah, Gua Musang, Kelantan was by way of medicine and the medical screening service by our SOS Team.

Vitamins were dispensed, and medical screening offered, for the poor and less fortunate in Kuching through the SOS Team at a Society for Kuching Urban Poor (SKUP) Soup Kitchen outreach event. A similar programme was also organised in Pos Pelantok, Perak benefitting the Orang Asli community with SOS, the International Islamic University of Malaysia (IIUM) and the Community Research for Orang Asli Development (COMRADE) club.

Medicine was provided for a mass circumcision event for boys aged 6 to 12 from poor background nationwide during a month long event arranged by Exco Pemuda UMNO in December 2010. A contribution of 200 pieces of T-Shirts to the "2010 IPC Powerlifting World Championships KL Paralympic" was made through the Malaysian Paralympic Council, to support the sports development of the people with special abilities.

EMERGENCY RELIEF AT HOME AND ABROAD

When the northern part of the country was flooded, we were quick to respond to "Program Prihatin Mangsa Banjir" in Kedah and Perlis by making donations directly to the flood victims. When floods struck hard in Pakistan we made a contribution of medical supplies at a handover ceremony for flood victims via Badan Amal dan Kebajikan Tenaga Isteri-Isteri (BAKTI).

A contribution of RM10,000 for humanitarian aid for the war stricken people of Palestine was made through Yayasan Belia Malaysia. Every single day we count ourselves fortunate to live in a peaceful country, free of the natural disasters we witness daily on the world news, and lucky to be in a position to offer some comfort and aid to those in plight.


ENVIRONMENT, SAFETY & HEALTH

THE GROUP'S QUALITY, ENVIRONMENT, SAFETY & HEALTH ("QESH") POLICY SUPERVISES QUALITY INITIATIVES AND OPERATIONAL RISKS ARISING FROM WORK ACTIVITIES IN A COST EFFECTIVE MANNER. DURING THE YEAR WE IMPLEMENTED THE 5S QUALITY SYSTEM, ONE OF THE MOST POWERFUL TECHNIQUES OF WORKPLACE HOUSEKEEPING THAT FOCUSES ON SIMPLIFYING THE WORK ENVIRONMENT, REDUCING WASTE, AND IMPROVING QUALITY AND SAFETY. COMPETENCY TRAINING WAS ARRANGED FOR STAFF TO LEARN ABOUT AND APPLY THE 5S QUALITY ELEMENTS.

Our environmental standards are designed to address the delicate balance between maintaining profitability and reducing environmental impact. With the commitment of our entire organisation we can achieve both objectives. Monitoring of electricity and water consumption and scheduled waste and non-scheduled waste disposal was tracked to gauge the impact of initiatives we have introduced to minimise usage and waste and report on the variances.

QESH awareness and communication programmes carried out in 2010 built upon the achievements secured in the previous year. They included the Healthy Living and staff awareness programmes on a variety of issues such as the benefits of exercise, weight management, quitting smoking and offered free eye and bone checks.

QUALITY

A 5S programme is a work system that reduces wasted time and materials; improves daily or shift startup times; reduces maintenance and downtime; improves efficiency and productivity; improves employee morale; and simplifies the work environment. The result of its application is improved quality, safety and productivity - all of which lead to improved profits. The 5S system's original Japanese elements Sort, Straighten, Shine, Standardise, Sustain has been translated into five English words and also into Bahasa Melayu for wider comprehension. These translations are tabulated together below:

The 5S Elements in translation

No.	Japanese	English	Melayu
1.	Seiri	Sort	Sisih
2.	Seiton	Set in order	Susun
3.	Seiso	Shine	Sapu
4.	Seiketsu	Standardise	Seragam
5.	Shitsuke	Sustain	Sentiasa Amal

Looking ahead, to sustain the programme next year and ensure all departments are implementing 5S properly, we will form a group of 5S auditors to ensure progress is maintained.

Under the Quality ISO 9001 Awareness Programme, a Quality Exhibition and an Innovative & Productive Talk by the Malaysian Productivity Corporation was arranged in-house.

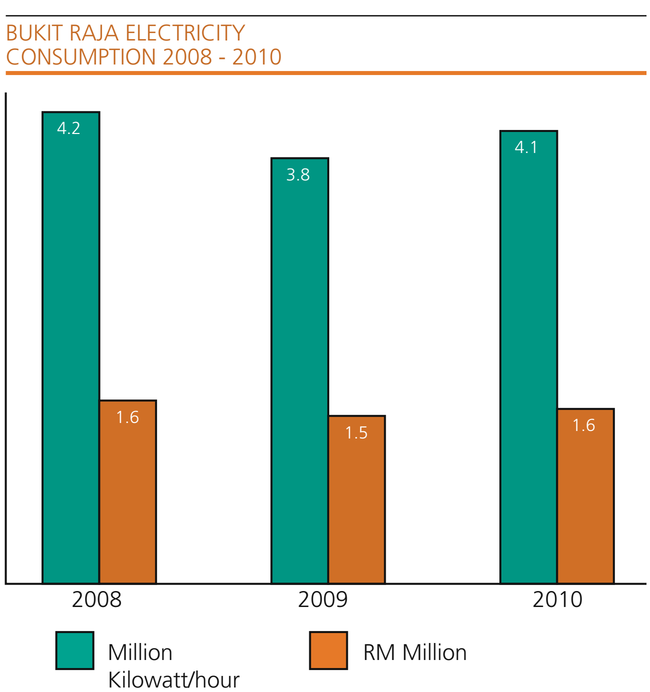
ENVIRONMENT

Environmental impact is becoming an important issue across the globe. Our environmental standards exist to help us minimise the ways in which our operations and processes negatively affect the environment causing adverse changes to air, water, or land and also to comply with applicable laws, regulations, and other environmentally oriented requirements. In April 2010, as part of the Company's Environmental ISO 14001 Awareness Programme, a Recycling Centre was set up with the advice of the Shah Alam City Council.

Electricity Consumption

Energy conservation in the organisation is being achieved through more efficient use of energy in conjunction with a reduction in energy consumption by turning out lights and switching off air conditioning to cut costs and improve environmental quality. In the year under review, despite a slight 6% increase in the amount of energy consumed at Bukit Raja, consumption was kept at an optimum level as a consequence of repairing chiller plant and changing compressor sets for two other chillers.

Bukit Raja Electricity Consumption

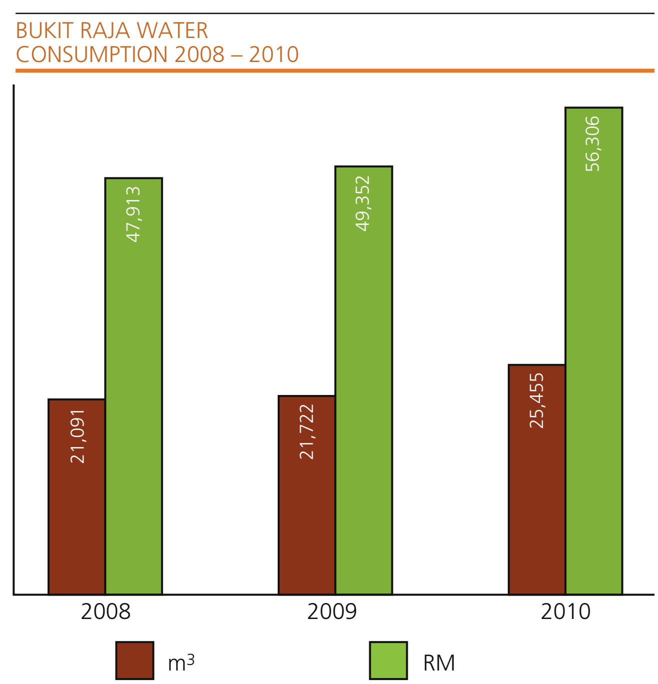


In Penang, clear signages reminding users to switch off facilities, machinery and equipment after operating was one of the factors that helped reduce electricity consumption by 6% in 2010. In Sabah, an awareness campaign saw electricity consumption decline to 340,760 kwh from 366,160kwh in the prior year – savings of RM15,030.

Water Consumption

At the same time, an awareness campaign on water conservation ensured water consumption was capped at a minimum level. However, an unavoidable increase of 17% was recorded due to the commencement of the Pharmaniaga Research Centre ("PRC") and the operation of a cooling tower.

Bukit Raja Water Consumption



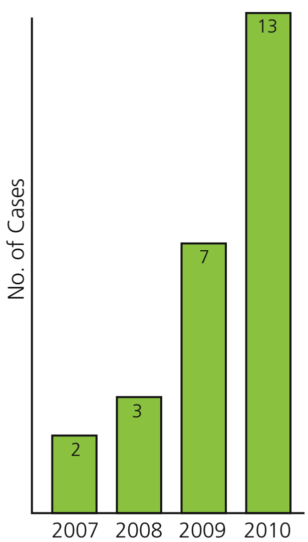
At our premises in Sarawak water consumption decreased by 77,182 m³ from 1,127,000 m³ in 2009. After experiencing a sharp reduction in water leakage in the preceding year in Sabah, following repiping work to rectify an underground leakage, there was a slight increase in usage due to construction work.

SAFETY

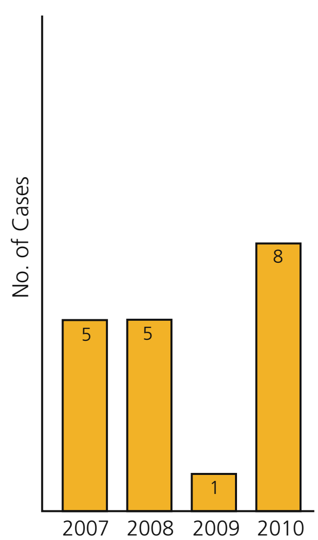
Accident Incident Record Statistics are kept to track safety standards and remedial corrective measures. Due to an intensive awareness campaign on the importance of reporting, we recorded a higher number of near miss cases reported in Bukit Raja in 2010 compared to previous years. Of 21 incidences reported in 2010, 13 were accidents and 8 near miss cases.

Bukit Raja Accident Statistics

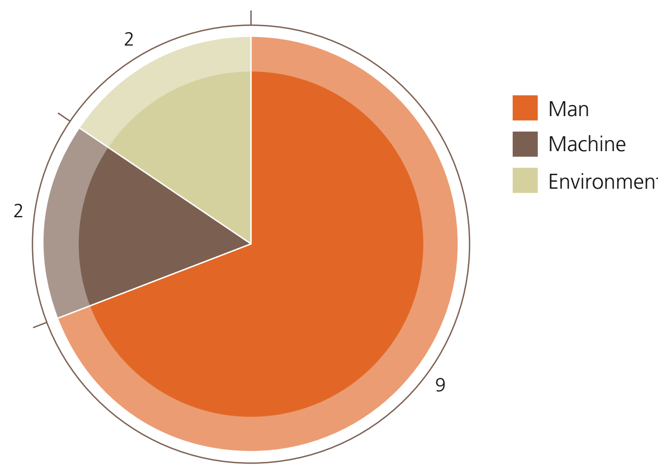
ACCIDENTS RECORD
2007 – 2010



NEAR MISS CASES RECORD
2007 – 2010



ACCIDENTS BY CATEGORY
2010



A group called "Workplace Inspection Team" was formed with the objective to enhance workplace safety, complying to Regulation 12 in the Occupational Safety and Health (OSH) Act, 1994 which recommends inspecting the place of work at least once in every three months.

HEALTH

We are concerned for the wellbeing of all our staff and have developed programmes to raise awareness of health and safety issues. The programmes by a wide selection of selected providers were run in-house to enable staff from all levels to participate and gain the maximum advantage. In 2010, the programmes offered included Bone Check, Eyecare Talk & Check Up Session, Fitness Talk & BMI Test, Tips on Quitting Smoking, Cigarette Alternative Giveaway, Weight Management, Fitness Circuit, Fruits Alert and Breast Cancer Talk & Check Up Session. Fitness Classes, a regular and popular feature, are currently running twice a week.

A comparison study made on staff Life Check reports compiled by the National Kidney Foundation for 2009 and 2010 has shown positive improvement. This involved checking blood pressure, blood glucose, cholesterol and a urine test. When tests revealed potential health problems staff were advised to refer to a doctor. Staff with high blood glucose and cholesterol results were advised to undergo a diet programme.

Wellness at work is very important as healthy staff work much better and are able to produce high quality products and services. Corporate wellness at work has been given growing attention over the last few years and is at the very heart of staff wellbeing and overall employee job satisfaction and fulfillment.

MOVING FORWARD

We strive to bring optimum value through our activities and inculcate the continual improvement culture among our staff throughout the organisation. Through well planned activities we can ensure a positive and significant impact to our quality management system, reflecting our mission to be a competitive and global player within the industry.

HUMAN CAPITAL DEVELOPMENT

THE PHARMANIAGA GROUP CELEBRATES EACH EMPLOYEE'S UNIQUE CONTRIBUTION TO THE ORGANISATION. THE STAFF ARE THE COMPANY'S MOST IMPORTANT ASSET. EACH INDIVIDUAL IS AN INVESTMENT WHICH WE NURTURE WITH COACHING, DEVELOPMENT AND ENGAGEMENT TO OPTIMISE THEIR EFFICIENCY AND PRODUCTIVITY. COMMITMENT FROM TOP MANAGEMENT CASCADES THROUGH ALL LEVELS, EMPOWERING OFFICERS WITH A MANDATE TO ENSURE THAT THE WORKFORCE IS PROPERLY EQUIPPED WITH RELEVANT RESOURCES TO MOVE PHARMANIAGA FORWARD TO MEET BUSINESS OBJECTIVES.

Pharmaniaga's Organisational Development Division ("ODD") philosophy focuses on getting the right people to do the right job at the right place at the right time. Our objective is to maximise the return on investment from the organisation's human capital and minimise financial risk. It is the responsibility of all managers in the corporate context to support, honour and value our people through dedicated programmes that promote education and improvement in both professional and personal skills. In 2010, the ODD focused on maintaining, securing, and utilising an efficient work force. With an effective workforce, organisations can soar.

LEARNING MANAGEMENT SYSTEM

A Learning Management System ("LMS") solution was rolled out to automate training administration, a vital step to ensure we operate more proficiently. We successfully launched LMS in March 2010. Staff are now able to self-enrol for training modules they wish to attend. They are also able to suggest new training programmes and schedule their individual learning plans for the whole year. The system's tracking and reporting capabilities allow staff and management together to review a planned learning path, track progress against milestones, review the record of achievement, and decide upon registration for additional courses.

LMS enables the immediate evaluation of staff skills and knowledge online and allows users to be evaluated prior, during, and upon completion of a course. Superiors can evaluate knowledge retention by periodically administering scheduled assessments via the LMS. They can view the record of results to determine success levels and the elapsed time taken to complete each course and its components. The great advantage of this innovation is the access and empowerment given to employees to design their own learning programmes and become more responsible for the pace of their own development and the advancement of their careers.

HIGH PERFORMANCE CULTURE (HPC) AND REFLECT, REVIEW AND RE-ENERGISE (3R)

Pharmaniaga has adopted a High Performance Culture ("HPC") initiative to ensure that everyone in the organisation espouses the same traits of Teamwork, Open Communication, Passion For Excellence, Integrity and Honesty and Care ("TOPIC"). HPC strives to create a platform for all employees to understand and uphold the Company's corporate values, incorporating them as a way of life.

Teambuilding sessions served to articulate our core values and broadcast the message about how each value exhibited by the individual was a reflection of the organisation as a whole. The sessions also inculcated a sense of belonging and commitment to shared values at work that enhance the individual's dedication in their daily work, building a sense of camaraderie between the participants through structured challenges.

Team development is a continuous process that needs constant follow-up to ensure that the morale of the team is maintained at high level. To strengthen the relationship binding team members and to motivate synergy, a 3R programme was introduced to help the employees to Reflect, Review and Re-energise. Conducted in a fun and lively manner, the objective was to review the lessons learnt during the teambuilding programme. The session guided all staff to discern the attitude and behaviour of colleagues, reassess their action plans, chart a revised action plan, and to appraise themselves better through feedback from other participants.

Our employees have shown a strong desire and commitment to align their attitude and behaviour to reflect a culture of high performance, team spirit, perseverance and commitment. They have also learnt the art of camaraderie, open communication, teamwork orientation and cohesiveness. As the programme went on, the drive to succeed, overcome challenges and assume leadership was kindled and reinforced.

Survey results have shown that our commitment to ensure TOPIC values are being practised in everyday work and life has accelerated us towards achieving the Company's vision and mission. The core concepts of HPC and TOPIC unite the teams, sustain their level of energy, and support the Group initiative to achieve common objectives.

BRANDING AND RECRUITMENT

The competition for talent continues to intensify and the need to attract and retain top performers remains key to business success. By distinguishing ourselves from others, underscoring our strengths and confirming our values, we ensure that our Company stays ahead of the pack and becomes an employer of choice. Our employer branding initiatives to universities and colleges involved our participation in Career Fairs and Career Talks to students, university convocations and awards such as Book Prize Award, the Pharmaniaga Excellence Award and Science & Technology Award.

In 2010, we participated in the following career talks and fairs:

- Petronas Technology University (UTP), Tronoh Perak in February and March 2010
- Pesta Kerjaya 2010 (CP10) in March 2010
- MCTF 2010, Mid Valley in April and October 2010
- Taylor's Career and Employment Fair in April 2010
- Karnival Kerjaya & Keusahawanan Graduan, PWTC in May 2010
- My Career Fair 2010, PWTC in November 2010
- SEGi Career Fair 2010 in November 2010
- 8th Penang Career & Postgraduate Expo in December 2010

E-recruitment Solutions was successfully launched during the Malaysian Career Trade Fair in Mid Valley, Kuala Lumpur between 8-10 October 2010. The objective of E-recruitment Solutions is to have a superior system to enhance organisational effectiveness through the simplification of the hiring process. The system includes managing, selecting and hiring through an online methodology that simplifies and accelerates the process. The E-recruitment Solutions also covers modules for job vacancy advertisements, applicant database, qualification matching and interview scheduling.

The rationale behind the E-recruitment facility is to create a talent bank via multiple online channels, including JobStreet, the corporate website, recruitment agencies, referrals and campus fairs, and is part of our online branding initiative. E-recruitment is able to automate interview scheduling for candidates through email or SMS. It enables the administrator to generate an automated report monitoring and analysing information covering the source of Curriculum Vitaes ("CVs"), the recruitment cycle time, the number of CVs received, the number of shortlisted, and lists of pre-screened, reserved, and rejected candidates.

REWARD AND RECOGNITION (R&R)

Pay for performance is the guiding principle of the Pharmaniaga Group's reward strategy and our goal is to provide premium actual total pay (base salary plus annual incentives and long-term incentives, if applicable) to employees who demonstrate sustained superior performance. We use a market-based approach for compensation. Base salaries are reviewed annually against the external market to ensure competitiveness. Annual salary increases awarded are differentiated based on performance and salary position against the market reference point for each job grade.

Key Performance Indicators (KPIs) and a Performance Management System ("PMS") are designed to support our performance-oriented culture. Company performance is a factor that drives the pay out of the PMS. Performance modifiers vary depending on results to closer correlate to the performance of specific businesses or functions. An additional individual performance factor is added to the final calculation.

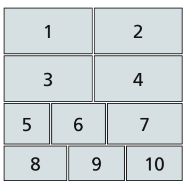
Responding to the business imperatives we have transformed systems, processes and outputs towards real-time delivery with an interactive Human Resource transaction and delivery system that is flexible and responsive. The Employee Self Service empowers the workforce with tools that help them to review and change their personal information in real time. The system enables staff to view benefits, assess paychecks, and generally manage their own information securely all with the simplicity of an internet connection. Employees can request leave, submit claims, and apply for jobs in minutes.

OUTLOOK

TOPIC has been a core part of our philosophy since its inception. It is the framework to establish a truly HPC which is crucial to propel us to greater heights as we broaden our business interests across the region.

The core of our ODD mission is to acquire and develop professional, committed and caring employees. We achieve this goal by instilling in our people a high sense of ethics and professionalism while performing their roles and responsibilities and encouraging and appropriately rewarding those who attain their targets. We nurture our people to attain a higher level of achievement and enjoyment everyday, both on and off the job, and to cultivate a work-life balance which boosts productivity.

GROUP CORPORATE CALENDAR



1 **7–9 JAN**

National Sales Convention & Launching of Commercial Division

2 **11 MAR**

Joint Venture between CliniFoods Sdn Bhd and Pharmaniaga Marketing Sdn Bhd for the latter to be the sole distributor for Biophine Syrup, a substitute drug to cure opioid dependency

3 **27 MAY**

12th Annual General Meeting at Concorde Hotel, Shah Alam

4 **28–30 MAY**

Pharmarace at Tasik Kenyir Terengganu, organised by the Sports and Recreation Club.

5 **26 JUN**

UEM Group Berhad and Boustead Holdings Berhad signed a sale and purchase agreement for the latter to acquire Pharmaniaga

6 **10 JUL**

Pharmaniaga awarded with "Highest Growth in Profit Before Tax Over Three Years" in the Trading/Services, IPC & Technology Sector in the Edge Billion Ringgit Club Awards 2010

7 **24 JUL**

Invitational Golf Tournament held in Bangi Golf Course

8 **30 JUL**

Pharmaniaga Long Service Award Ceremony

9 **17 AUG**

Fund Analyst Briefing held at Pharmaniaga LifeScience, Puchong

10 **30 AUG**

Pharmaniaga LifeScience awarded with full certification for Good Manufacturing Practice


pharmaniaga
SIGNING CEREMONY


pharmaniaga


pharmaniaga
pharmaniaga

AT THE END OF THE DAY, WE FULFILL THE DEMANDS OF OUR CUSTOMERS BY CHARTING TO THEIR OWN PERSONAL NEEDS.

2010 FINANCIAL STATEMENTS

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 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiary companies are disclosed in Note 13 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	30,310	13,060

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 2009:	
– final 27 sen gross dividend less taxation of 25% paid on 15 July 2010	21,663
– special 10 sen gross dividend less taxation of 25% paid on 15 July 2010	8,023
In respect of the financial year ended 31 December 2010:	
– interim 10 sen gross dividend less taxation of 25% paid on 19 August 2010	8,023
	37,709

The Directors do not recommend the payment of final dividend in respect of the financial year ended 31 December 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 35 to the financial statements.

DIRECTORS

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

Datuk 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 (resigned on 4 November 2010)

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 34 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

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 1.1.2010	Bought	Sold	As at 31.12.2010
Deemed interest				
Datuk Mohamed Azman bin Yahya*	10,000	–	–	10,000
Oh Kim Sun**	177,000	–	(80,000)	97,000

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

** Through his related corporations, 80,000 shares held through Sleuths Holdings Sdn. Bhd. and 17,000 shares held through Melval Holdings Sdn. Bhd.

Related Company

	Number of ordinary shares of RM0.25 each			
	As at 1.1.2010	Bought	Sold	As at 31.12.2010
PLUS Expressways Berhad				
Datuk 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:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person; or

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

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 11 March 2011.

DATUK MOHAMED AZMAN BIN YAHYA
CHAIRMAN

DATUK SULAIMAN BIN DAUD
DIRECTOR

STATEMENT BY DIRECTORS

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

We, Datuk Mohamed Azman bin Yahya and Datuk Sulaiman bin Daud, two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 120 to 193 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 2010 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 11 March 2011.

DATUK MOHAMED AZMAN BIN YAHYA
CHAIRMAN

DATUK SULAIMAN BIN DAUD
DIRECTOR

STATUTORY DECLARATION

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

I, Roshidah binti Abdullah, being the officer primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 120 to 193 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.

ROSHIDAH BINTI ABDULLAH

Subscribed and solemnly declared by the abovenamed Roshidah binti Abdullah at Kuala Lumpur on 11 March 2011, before me.

COMMISSIONER FOR OATHS

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 on pages 120 to 193 which comprise the balance sheets as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows 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 Notes 1 to 39.

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 judgement, 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 2010 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of subsidiaries of which we have not acted as auditors, which are indicated in Note 13 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 REPORTING RESPONSIBILITIES

The supplementary information set out in Note 40 on page 193 is disclosed to meet the requirements of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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. 2059/06/12 (J))
Chartered Accountant

Kuala Lumpur
11 March 2011

INCOME STATEMENTS
for the Financial Year ended 31 December 2010

	Note	GROUP 2010 RM'000	GROUP 2009 RM'000	COMPANY 2010 RM'000	COMPANY 2009 RM'000
Revenue	4	**1,378,348**	1,300,796	**44,925**	34,684
Cost of sales	5	**(1,174,102)**	(1,096,962)	**–**	–
Gross profit		**204,246**	203,834	**44,925**	34,684
Other income		**4,179**	13,292	**806**	2,050
Administrative expenses		**(95,468)**	(88,466)	**(7,475)**	(15,745)
Selling and distribution costs		**(26,029)**	(28,023)	**–**	–
Other expenses (include provision for impairment for slow moving and obsolete inventories of RM28 million)		**(36,288)**	(13,914)	**(24,250)**	(336)
Finance costs		**(4,043)**	(4,467)	**(946)**	(2,957)
Share of results from associated company		**(1,135)**	(820)	**–**	–
Profit before zakat and taxation	6	**45,462**	81,436	**13,060**	17,696
Zakat		**(1,962)**	–	**–**	–
Taxation	8	**(13,190)**	(19,709)	**–**	–
Net profit for the financial year		**30,310**	61,727	**13,060**	17,696
Attributable to:					
Owners of the parent		**30,384**	60,191	**13,060**	17,696
Non-controlling interest		**(74)**	1,536	**–**	–
Net profit for the financial year		**30,310**	61,727	**13,060**	17,696
Earnings per share (sen):					
– basic	9	**28.40**	56.26		
Dividend per share (sen):					
– interim gross dividend paid less taxation of 25%	10	**10**	–		
– final gross dividend paid less taxation of 25%	10	**–**	27		
– special gross dividend paid less taxation of 25%	10	**–**	10		

STATEMENTS OF COMPREHENSIVE INCOME

for the Financial Year ended 31 December 2010

	Note	GROUP		COMPANY	
		2010	2009	**2010**	2009
		RM'000	RM'000	**RM'000**	RM'000
Net profit for the financial year		**30,310**	61,727	**13,060**	17,696
Other comprehensive income, net of tax:					
Foreign currency translation differences for foreign operations		**(1,464)**	4,070	**–**	–
Total comprehensive income, net of tax for the financial year		**28,846**	65,797	**13,060**	17,696
Attributable to:					
Owners of the parent		**28,920**	64,261	**13,060**	17,696
Non-controlling interest		**(74)**	1,536	**–**	–
		28,846	65,797	**13,060**	17,696

	Note	GROUP 2010 RM'000	GROUP 2009 RM'000	COMPANY 2010 RM'000	COMPANY 2009 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	**276,976**	277,515	**–**	–
Prepaid lease payments	12	**2,950**	3,033	**–**	–
Investments in subsidiary companies	13	**–**	–	**185,823**	184,523
Investments in associated companies	14	**5,427**	6,562	**1,970**	1,970
Intangible assets	15	**28,820**	28,820	**–**	–
Deferred tax assets	28	**10,945**	3,904	**–**	–
		325,118	319,834	**187,793**	186,493
Current assets					
Inventories	16	**230,013**	228,067	**–**	–
Trade receivables	17	**114,045**	128,743	**–**	–
Other receivables	18	**13,250**	11,675	**136**	201
Amounts due from subsidiary companies	19	**–**	–	**140,240**	167,509
Amounts due from related companies	20	**9,614**	15,699	**–**	–
Amounts due from associated companies	21	**559**	1,789	**–**	–
Tax recoverable		**6,304**	8,030	**–**	–
Fixed deposits	22	**77,761**	60,534	**–**	–
Cash and bank balances	22	**25,216**	43,874	**836**	2,708
		476,762	498,411	**141,212**	170,418
TOTAL ASSETS		**801,880**	818,245	**329,005**	356,911

	Note	GROUP 2010 RM'000	GROUP 2009 RM'000	COMPANY 2010 RM'000	COMPANY 2009 RM'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	27	**106,978**	106,978	**106,978**	106,978
Share premium		**22,447**	22,447	**22,447**	22,447
Exchange reserves		**(3,885)**	(2,421)	**–**	–
Retained earnings		**296,304**	303,629	**36,702**	61,351
Equity attributable to equity holders of the Company		**421,844**	430,633	**166,127**	190,776
Non-controlling interest		**15,629**	15,703	**–**	–
Total equity		**437,473**	446,336	**166,127**	190,776
Non-current liabilities					
Loans and borrowings	26	**59**	7,429	**–**	4,950
Deferred tax liabilities	28	**1,530**	3,131	**–**	–
Provision for defined benefit plan	29	**3,175**	2,449	**–**	–
		4,764	13,009	**–**	4,950
Current liabilities					
Trade payables	23	**300,496**	268,703	**–**	–
Other payables	24	**24,524**	23,058	**572**	1,285
Amount due to immediate holding company	25	**97**	428	**97**	428
Amounts due to subsidiary companies	19	**–**	–	**162,178**	122,420
Amounts due to related companies	20	**–**	100	**–**	58
Amounts due to associated companies	21	**31**	4,571	**31**	4,566
Tax payable		**1,428**	3,964	**–**	–
Loans and borrowings	26	**33,067**	58,076	**–**	32,428
		359,643	358,900	**162,878**	161,185
Total liabilities		**364,407**	371,909	**162,878**	166,135
TOTAL EQUITY AND LIABILITIES		**801,880**	818,245	**329,005**	356,911

		Equity attributable to equity holders of the Company						
	Note	Share capital RM'000	Share premium RM'000	Exchange reserves RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
At 1 January 2010		**106,978**	**22,447**	**(2,421)**	**303,629**	**430,633**	**15,703**	**446,336**
Total comprehensive (expense)/ income for the financial year ended 31 December 2010		**–**	**–**	**(1,464)**	**30,384**	**28,920**	**(74)**	**28,846**
2009 final 27 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**–**	**(21,663)**	**(21,663)**	**–**	**(21,663)**
2009 special 10 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**–**	**(8,023)**	**(8,023)**	**–**	**(8,023)**
2010 interim 10 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**–**	**(8,023)**	**(8,023)**	**–**	**(8,023)**
As at 31 December 2010		**106,978**	**22,447**	**(3,885)**	**296,304**	**421,844**	**15,629**	**437,473**
At 1 January 2009		106,978	22,447	(6,491)	265,101	388,035	14,167	402,202
Total comprehensive income for the financial year ended 31 December 2009		–	–	4,070	60,191	64,261	1,536	65,797
2008 final 27 sen gross dividend paid less taxation of 25%	10	–	–	–	(21,663)	(21,663)	–	(21,663)
As at 31 December 2009		106,978	22,447	(2,421)	303,629	430,633	15,703	446,336

COMPANY STATEMENTS OF CHANGES IN EQUITY
for the Financial Year ended 31 December 2010

	Note	Non-distributable Share capital RM'000	Non-distributable Share premium RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 January 2010		**106,978**	**22,447**	**61,351**	**190,776**
Total comprehensive income for the financial year ended 31 December 2010		**–**	**–**	**13,060**	**13,060**
2009 final 27 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**(21,663)**	**(21,663)**
2009 special 10 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**(8,023)**	**(8,023)**
2010 interim 10 sen gross dividend paid less taxation of 25%	10	**–**	**–**	**(8,023)**	**(8,023)**
At 31 December 2010		**106,978**	**22,447**	**36,702**	**166,127**
At 1 January 2009		106,978	22,447	65,318	194,743
Total comprehensive income for the financial year ended 31 December 2009		–	–	17,696	17,696
2008 final 27 sen gross dividend paid less taxation of 25%	10	–	–	(21,663)	(21,663)
At 31 December 2009		106,978	22,447	61,351	190,776

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
CASH FLOW OPERATING ACTIVITIES				
Cash receipts from customers	**1,368,004**	1,353,784	**–**	–
Cash payments to suppliers	**(1,151,349)**	(1,151,237)	**–**	–
Cash payments to employees and for expenses	**(123,187)**	(108,243)	**(6,827)**	(17,939)
Cash receipts from/(payment to) related companies	**7,595**	11,655	**(5,498)**	(998)
Advances from subsidiary companies	**–**	–	**47,768**	72,647
Cash from operations	**101,063**	105,959	**35,443**	53,710
Interest paid	**(3,834)**	(3,398)	**–**	–
Profit on Murabahah Commercial Paper paid	**(203)**	(486)	**(203)**	(486)
Tax paid	**(24,121)**	(28,170)	**–**	–
Tax refund	**–**	840	**–**	–
Interest received	**1,027**	871	**–**	–
Net cash generated from operating activities	**73,932**	75,616	**35,240**	53,224
CASH FLOW INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	**180**	159	–	–
Proceeds from disposal of non current assets held for sale	**1,000**	55,541	**–**	–
Purchase of property, plant and equipment	**(7,420)**	(32,008)	**–**	–
Dividend received	**–**	–	**39,000**	21,990
Net cash (used in)/generated from investing activities	**(6,240)**	23,692	**39,000**	21,990

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
CASH FLOW FROM FINANCING ACTIVITIES				
Dividends paid	**(37,709)**	(21,663)	**(37,709)**	(21,663)
Redemption of Murabahah CP/MTN	**(29,000)**	(31,000)	**(29,000)**	(31,000)
Drawdown/(repayments) of short term borrowings	**6,665**	(12,566)	**–**	–
Repayments of term loan	**(8,550)**	(19,800)	**(8,550)**	(19,800)
Term loan interest paid	**(140)**	(918)	**(140)**	(918)
Profit on Murabahah Medium Term Notes paid	**(713)**	(1,388)	**(713)**	(1,388)
Net used in financing activities	**(69,447)**	(87,335)	**(76,112)**	(74,769)
CHANGE IN CASH AND CASH EQUIVALENTS	**(1,755)**	11,973	**(1,872)**	445
Foreign exchange differences	**324**	(1,738)	**–**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	**104,408**	94,173	**2,708**	2,263
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**102,977**	104,408	**836**	2,708
Cash and cash equivalents comprise:				
Fixed deposits	**77,761**	60,534	**–**	–
Cash and bank balances	**25,216**	43,874	**836**	2,708
Cash and cash equivalents	**102,977**	104,408	**836**	2,708

1 GENERAL INFORMATION

The Company is an investment holding company. The principal activities of its subsidiary companies are disclosed in Note 13 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 as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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 use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of reserves and expenses during the financial year. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(i) Changes in accounting policies

The new/revised accounting standards and amendments to published standards effective and applicable for the Group's and the Company's financial year beginning 1 January 2010 are as follows:

- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- FRS 7 Financial Instruments: Disclosures
- FRS 123 Borrowing Costs
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations
- FRS 101 Presentation of Financial Statements
- IC Interpretation 9 Reassessment of Embedded Derivatives
- IC Interpretation 10 Interim Financial Reporting and Impairment
- Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives

Improvements to the following FRSs:

- FRS 8 Operating Segments
- FRS 110 Events after the Reporting Period
- FRS 116 Property, Plant and Equipment
- FRS 123 Borrowing costs
- FRS 136 Impairment of assets
- FRS 139 Financial Instruments: Recognition and Measurement

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

(i) Changes in accounting policies (cont'd)

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretation. All standards, amendments and interpretations adopted by the Group and the Company require retrospective application other than:

- IC Interpretation 10 – Applied prospectively to goodwill from the date it first applied FRS 136 and to investments in financial assets carried at cost from the date it first applied the measurement criteria of FRS 139

A summary of the impact of the new accounting standards, amendments to published standards and interpretations to existing standards on the financial statements of the Group and Company is set out below:

(a) FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114_{2004} Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group's chief operating decision maker, the Exco/Managing Director of the Company, relies on internal reports which are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

(b) FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010). FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, interest rate risk, foreign currency exchange risk and market risk. The Group and the Company have applied FRS 7 prospectively in accordance with the transitional provision, hence the new disclosure have not been applied to the comparatives. The new disclosures are included in the Group's and the Company's financial statements for the financial year ended 31 December 2010.

(c) Amendments to FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 101 requires changes in the format of the financial statements including the amounts directly attributable to shareholders in the primary statements, but does not effect the measurement of reported profit or equity. The Group has elected to show other comprehensive income in a separate statement from the income statement and hence, all owner changes in equity are presented in the consolidated statement of changes in equity, whereas non-owner changes in equity are shown in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the amendment to FRS 101.

The adoption of other interpretations and revisions to existing standards mandatory for annual periods beginning on or after 1 January 2010 did not result in significant changes in the reported profit or equity or on the disclosures in the financial statements.

A number of new standards, amendments to new standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

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

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

(b) **Basis of consolidation** (cont'd)

(ii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iii) Associated companies

Associated companies are all entities in which the Group has significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not the power to exercise control over those policies. Investments in associated companies are accounted for using the equity method accounting and are initially recognised at cost. The Group's investment in associated company includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

Unrealised gains on transactions between the economic entities of the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Segment reporting

With effect from 1 January 2010, the Group determines and presents operating segments based on information that is internally provided to the Exco/Managing Director of the Company, who is the Group's chief operating decision maker, which are similar to those currently disclosed externally.

(d) Foreign currency translation

(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 except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

The principal exchange rates used at balance sheet date are as follows:

	2010 **RM**	2009 RM
1 US Dollar	**3.08**	3.42
1 Euro	**4.08**	4.92
100 Indonesian Rupiah	**0.03**	0.03

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Foreign currency translation (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 other comprehensive income.

When a foreign operation is partially disposed off or sold, exchange differences that were recorded in equity 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.

(e) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Freehold land is not depreciated as it has an infinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 2(j)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(f) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) 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(j) 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.

(h) 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, identified according to the operating segment. See accounting policy Note 2(j) on impairment of assets.

(ii) Project development expenditure

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) 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(j) on impairment of assets.

(j) Impairment of non-financial 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of finished goods are determined using the weighted average method whilst costs of work-in-progress and raw materials are determined using the first-in, first-out (FIFO) method.

Cost includes the actual cost of materials and incidental cost incurred in bringing the inventories to store. As for in-house manufactured finished goods and work-in-progress, labour and appropriate production overheads (based on normal operating capacity) are also included.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and applicable variable selling expenses. In arriving the net realisable value, due allowances have been made by Directors for all damages, obsolete and slow moving items. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of raw materials.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

(l) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(m) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(n) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

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

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) 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) Defined benefit plan

The Group operates a defined benefit plan for employees of the Group, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement obligation is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefit obligation at the date.

These gains or losses are recognised on a straight line basis over the expected average remaining working lives of the employees. Further, past service costs arising from the introduction of a defined benefit plan or changes in benefit payable of an existing plan are required to be amortised over the period until the benefits concerned become vested.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) 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 will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 obligations 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Revenue recognition (cont'd)

(iii) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(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.

(t) Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

(u) **Financial assets**

Classification

The Group only classifies its financial assets in the loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-forsale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(w) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the group, for economic or legal reasons relating to the borrower's financial difficulty;

granting to the borrower a concession that the lender would not otherwise consider;

– it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(a) adverse changes in the payment status of borrowers in the portfolio; and

(b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(x) Zakat

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 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 2010 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.

(y) 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.

(z) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements 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. 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 addressed below.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (cont'd)

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). 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 15.

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 15 on the impairment assessment of goodwill.

4 REVENUE

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Revenue consists of:				
Sale of goods	**1,372,867**	1,290,383	**–**	–
Contracts	**5,306**	10,413	**–**	–
Rendering of services	**175**	–	**–**	–
Management fees	**–**	–	**5,925**	12,694
Dividend income	**–**	–	**39,000**	21,990
	1,378,348	1,300,796	**44,925**	34,684

5 COST OF SALES

	GROUP	
	2010 RM'000	2009 RM'000
Cost of sales consists of:		
Cost of inventories sold	**1,170,058**	1,088,517
Contracts costs	**4,044**	8,445
	1,174,102	1,096,962

6 PROFIT BEFORE ZAKAT AND TAXATION

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Profit before zakat and taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
– statutory				
– current	**278**	228	**75**	40
– others	**92**	78	**–**	–
– under provision in prior year	**–**	19	**–**	–
Amortisation of project development expenditure	**–**	735	**–**	–
Property, plant and equipment				
– depreciation	**14,080**	13,847	**–**	–
– written-off	**21**	856	**–**	–
Amortisation of prepaid lease payments	**83**	83	**–**	–
Gain on disposal of property, plant and equipment	**(72)**	(158)	**–**	–
Gain on disposal of non current assets held for sale	**–**	(9,569)	**–**	–
Directors' remuneration				
– fees payable to directors	**342**	384	**270**	312
– fees payable to holding company	**–**	17	**–**	17
– salaries, bonuses and other emoluments	**121**	107	**121**	107
Finance cost				
– interest expense on term loan	**3,952**	4,091	**140**	918
– interest expense on bankers' acceptance	**91**	73	**–**	–
– profit on Murabahah Commercial Paper	**–**	–	**272**	646
– profit on Murabahah Medium Term Notes	**–**	–	**534**	1,388
Interest income	**(1,028)**	(869)	**(806)**	(2,051)
Provision for impairment of receivables	**2,553**	171	**24,131**	–
Write back of provision for impairment of receivables	**(90)**	(1,889)	**–**	–
Bad debts written off	**–**	374	**–**	–
Provision for impairment of slow moving and obsolete inventories	**28,234**	5,020	**–**	–
Write back of provision for impairment of slow moving and obsolete inventories	**(234)**	–	**–**	–
Inventories written off	**211**	3,013	**–**	–
Rental of premises	**2,288**	1,571	**2**	17
Rental of equipment	**706**	586	**95**	112
Research and development expenses	**3,041**	1,932	**–**	–
Government grant	**(1,809)**	(944)	**–**	–
Gain on foreign currency exchange	**(877)**	(1,773)	**–**	1
Rental income	**(13)**	(13)	**–**	–
Impairment of goodwill	**–**	1,800	**–**	–
Employee benefit expenses (Note 7)	**61,958**	59,445	**5,262**	9,866

The estimated monetary value of benefits provided to Directors of the Company during the financial year amounted to RM5,400 (2009: RM15,000).

7 EMPLOYEE BENEFIT EXPENSES

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Salaries and bonus	**43,933**	40,561	**3,721**	5,853
Defined contribution plan	**5,780**	4,476	**394**	734
Defined benefit plan	**862**	918	**–**	–
Short term employee benefits	**10,920**	12,242	**756**	2,103
	61,495	58,197	**4,871**	8,690
Directors' remuneration	**463**	1,248	**391**	1,176
	61,958	59,445	**5,262**	9,866

The number of employees of the Group and Company at the end of the financial year is 1,814 and 34 (2009: 1,791 and 93) respectively.

8 TAXATION

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Current tax:				
– Malaysian income tax	**19,914**	18,867	–	–
– foreign income tax	**1,908**	1,833	**–**	–
– under/(over) provision in prior years	**10**	(228)	**–**	–
Deferred taxation (Note 28)				
– reversal of net temporary differences	**(6,046)**	(763)	**–**	–
– over provision in prior years	**(2,596)**	–	**–**	–
	13,190	19,709	**–**	–

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

8 TAXATION (cont'd)

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

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Profit before zakat and taxation	**45,462**	81,436	**13,060**	17,696
Income tax at rate of 25% (2009: 25%)	**11,366**	20,359	**3,265**	4,424
Tax effect in respect of:				
Non-allowable expenses	**4,752**	5,190	**9,595**	2,906
Income not subject to tax	**(386)**	(4,931)	**(12,860)**	(7,330)
Effect of different tax rate of a foreign subsidiary	**44**	52	**–**	–
Utilisation of current year's reinvestment allowances	**–**	(669)	**–**	–
Utilisation of previously unrecognised capital allowances	**–**	(64)	**–**	–
Under(over) provision of income tax in prior years	**10**	(228)	**–**	–
Over provision of deferred tax in prior years	**(2,596)**	–	**–**	–
	13,190	19,709	**–**	–

9 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 RM30,384,000 (2009: RM60,191,000) and the weighted average number of ordinary shares in issue during the year of 106,978,000 (2009: 106,978,000).

	GROUP	
	2010 RM'000	2009 RM'000
Net profit attributable to shareholders (RM'000)	**30,384**	60,191
Weighted average number of ordinary shares in issue ('000)	**106,978**	106,978
Basic earnings per share (sen)	**28.40**	56.26

10 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			
	2010		2009	
	Per share sen	**Amount of dividend RM'000**	Per share sen	Amount of dividend RM'000
Interim gross dividend paid less taxation of 25%	**10**	**8,023**	–	–
Final gross dividend paid less taxation of 25%	**–**	**–**	27	21,663
Special gross dividend paid less taxation of 25%	**–**	**–**	10	8,023
		8,023		29,686

The Directors do not recommend the payment of final dividend in respect of the financial year ended 31 December 2010.

11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RM'000	Furniture, fittings, renovation, and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Capital work-in-progress RM'000	Total RM'000
Group						
At 31 December 2010						
Cost	**203,920**	**64,099**	**6,180**	**125,220**	**5,420**	**404,839**
Accumulated depreciation	**(41,033)**	**(42,093)**	**(4,687)**	**(39,437)**	**(613)**	**(127,863)**
Net book value	**162,887**	**22,006**	**1,493**	**85,783**	**4,807**	**276,976**
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

.

11 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Land and buildings RM'000	Furniture, fittings, renovation, and equipment RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Capital work-in-progress RM'000	Total RM'000
Movements in net book value						
At 1 January 2010	**167,357**	**24,324**	**969**	**79,349**	**5,516**	**277,515**
Additions	**141**	**2,656**	**565**	**10,386**	**15**	**13,763**
Disposals	**–**	**(50)**	**(58)**	**–**	**–**	**(108)**
Written off	**(12)**	**(9)**	**–**	**–**	**–**	**(21)**
Depreciation charged	**(4,269)**	**(4,822)**	**(400)**	**(3,952)**	**(637)**	**(14,080)**
Foreign exchange adjustment	**(330)**	**(93)**	**417**	**–**	**(87)**	**(93)**
At 31 December 2010	**162,887**	**22,006**	**1,493**	**85,783**	**4,807**	**276,976**
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

11 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 2010					
Cost	**25,254**	**113,362**	**61,692**	**3,612**	**203,920**
Accumulated depreciation	**–**	**(12,215)**	**(28,080)**	**(738)**	**(41,033)**
Net book value	**25,254**	**101,147**	**33,612**	**2,874**	**162,887**
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
Movements in net book value					
At 1 January 2010	**25,323**	**102,481**	**36,600**	**2,953**	**167,357**
Additions	**67**	**–**	**74**	**–**	**141**
Written off	**–**	**–**	**(12)**	**–**	**(12)**
Depreciation charged	**–**	**(1,225)**	**(2,965)**	**(79)**	**(4,269)**
Foreign exchange adjustment	**(136)**	**(109)**	**(85)**	**–**	**(330)**
At 31 December 2010	**25,254**	**101,147**	**33,612**	**2,874**	**162,887**
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

11 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Furniture and fittings RM'000	Renovation RM'000	Equipment RM'000	Total RM'000
Group				
Analysis of furniture, fittings, renovation and equipment:				
At 31 December 2010				
Cost	**18,967**	**15,516**	**29,616**	**64,099**
Accumulated depreciation	**(13,622)**	**(11,513)**	**(16,958)**	**(42,093)**
Net book value	**5,345**	**4,003**	**12,658**	**22,006**
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
Movements in net book value				
At 1 January 2010	**5,173**	**4,602**	**14,549**	**24,324**
Additions	**326**	**1,129**	**1,201**	**2,656**
Disposal	**–**	**(50)**	**–**	**(50)**
Written off	**–**	**–**	**(9)**	**(9)**
Depreciation charged	**(361)**	**(1,460)**	**(3,001)**	**(4,822)**
Foreign exchange adjustment	**207**	**(218)**	**(82)**	**(93)**
As at 31 December 2010	**5,345**	**4,003**	**12,658**	**22,006**
At 1 January 2009	5,414	2,779	15,992	24,185
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

11 PROPERTY, PLANT AND EQUIPMENT (cont'd))

In prior year, certain property, plant and equipment of a subsidiary company with net book value totalling of RM1,598,212 have been pledged as collateral for borrowings as explained in Note 26.

Borrowing costs of RM954,260 (2009: RM2,183,059), incurred specifically for the construction of the Small Volume Injectable plant and purchases of related equipment were capitalised during the financial year.

12 PREPAID LEASE PAYMENTS

	Long term RM'000	Short term RM'000	Total RM'000
Group			
At 31 December 2010			
Cost	**2,128**	**1,689**	**3,817**
Accumulated amortisation	**(406)**	**(461)**	**(867)**
Net book value	**1,722**	**1,228**	**2,950**
At 31 December 2009			
Cost	2,128	1,689	3,817
Accumulated amortisation	(374)	(410)	(784)
Net book value	1,754	1,279	3,033
Movements in net book value			
At 1 January 2010	**1,754**	**1,279**	**3,033**
Amortisation charged for the year	**(32)**	**(51)**	**(83)**
At 31 December 2010	**1,722**	**1,228**	**2,950**
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

13 INVESTMENTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost	**184,523**	184,523
Add: Increase in investment in unquoted shares	**1,300**	–
	185,823	184,523

Details of the subsidiary companies are as follows:

Name of company	Country of incorporation	Effective equity interest **2010** **%**	2009 %	Principal activities
<u>Subsidiary companies of the Company</u>				
Pharmaniaga Manufacturing Berhad	Malaysia	**100**	100	Manufacture and sale of pharmaceutical products
Pharmaniaga LifeScience Sdn. Bhd.	Malaysia	**100**	100	Manufacture and sale of pharmaceutical products
Pharmaniaga Logistics Sdn. Bhd.	Malaysia	**100**	100	Purchase, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions
Pharmaniaga Marketing Sdn. Bhd.	Malaysia	**100**	100	Marketing of pharmaceutical products
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

13 INVESTMENTS IN SUBSIDIARY COMPANIES (cont'd)

Name of company	Country of incorporation	Effective equity interest **2010** **%**	2009 %	Principal activities
Subsidiary companies of the Company (cont'd))				
Pharmaniaga Pegasus (Seychelles) Co. Ltd. *	Republic of Seychelles	**100**	100	Dormant
Pharmaniaga Biovention Sdn. Bhd.	Malaysia	**100**	100	Dormant
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.

In prior year, certain investment in subsidiary companies have been pledged as collateral for borrowings as explained in Note 26.

14 INVESTMENTS IN ASSOCIATED COMPANIES

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Unquoted shares, at cost	**1,970**	4,580	**1,970**	4,580
Group's share of post acquisition profit	**3,457**	4,592	**–**	–
	5,427	9,172	**1,970**	4,580
Less: Accumulated impairment losses	**–**	(2,610)	**–**	(2,610)
	5,427	6,562	**1,970**	1,970

A settlement agreement dated 14 December 2009 was entered between the Company and Amcare Labs International Inc. ("ALI") for the disposal of the Company's entire 40% equity interest in Amcare Labs (M) Sdn Bhd ("ALM") to ALI for a consideration of RM1.00 ("Disposal"). Disposal was completed on 24 November 2010.

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

	GROUP	
	2010 RM'000	2009 RM'000
Results		
Revenue	**5,826**	9,444
Losses after tax	**(1,135)**	(820)
Assets and liabilities		
Non-current assets	**5,120**	6,267
Current assets	**3,727**	3,648
Current liabilities	**(3,420)**	(3,353)
Net assets	**5,427**	6,562

The Group's share of losses of associated companies that have not been recognised amounted to nil for the current financial year (2009: RM422,595) and RM5,241,000 (2009: RM5,241,000) cumulatively as at 31 December 2010 as they have exceeded the Group's cost of investments and advances and thus the Group has no further financial obligation beyond these exposures.

14 INVESTMENTS IN ASSOCIATED COMPANIES (cont'd)

Details of the associated companies are as follows:

Name of company	Country of incorporation	Effective equity interest **2010** **%**	2009 %	Principal activities
Associated companies of the Company				
Pharmacare Asia Holdings (Cayman) Limited	Cayman Island	**49**	49	Dormant
Amcare Labs Malaysia Sdn. Bhd.	Malaysia	**–**	40	Disposed
Forte Tech Solutions Sdn. Bhd.	Malaysia	**30**	30	Provision of information technology solutions and systems support services

15 INTANGIBLE ASSETS

	Goodwill RM'000	Project development expenditure RM'000	Brand RM'000	Total RM'000
Group				
Cost				
At 1 January/31 December 2010	**39,248**	**9,371**	**1,000**	**49,619**
At 1 January/31 December 2009	39,248	9,371	1,000	49,619
Accumulated amortisation/impairment				
At 1 January/31 December 2010	**10,428**	**9,371**	**1,000**	**20,799**
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
Net book value				
At 31 December 2010	**28,820**	**–**	**–**	**28,820**
At 31 December 2009	28,820	–	–	28,820

15 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:

	2010			2009		
	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	9,853	25,754
Indonesia	**3,066**	**–**	**3,066**	3,066	–	3,066
	18,967	**9,853**	**28,820**	18,967	9,853	28,820

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Directors covering a five-year period.

The Directors had conducted a test on the goodwill of its pharmaceutical trading, marketing and distribution and medical products and services CGUs.

Pharmaceutical trading, marketing and distribution

The key assumptions for the recoverable amounts of this CGU are management's estimates of net cash flows over 5 years based on a growth rate of 9.2% and at a pre-tax discount rate of 7.7%. Management considers that the potential economic benefits from this CGU to be sufficient and no impairment loss to be recognised for the financial year.

15 INTANGIBLE ASSETS (cont'd)

Medical products and services

Key assumptions used for value-in-use calculations:

	2010	2009
Gross margin[1] (%)	**18.0**	18.0
Discount rate[2] (%)	**10.0**	10.0
Local university project[3] (RM'000)	**10,400**	80,206
Other institution project[4] (RM'000)	**20,000**	–
General hospital project[5] (RM'000)	**134,400**	–

[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

[4] Expected revenue to be generated upon securing a contract to supply and install medical equipment to other institution

[5] Expected revenue to be generated upon securing a contract to supply and install medical equipment to a general hospital

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 the projected cash flows during the explicit projection period.

Any reasonable possible change in the key assumptions used will not result in an additional impairment loss, other than if management is unsuccessful in securing the supply and installation of medical equipment contract in respect of the general hospital, it will cause an additional impairment loss of approximately RM1.56 million to be recognised.

16 INVENTORIES

	GROUP	
	2010	2009
	RM'000	RM'000
Raw materials	**13,365**	14,974
Packaging materials	**4,782**	3,123
Work-in-progress	**1,421**	990
Finished goods	**210,445**	208,980
	230,013	228,067

In prior year, certain inventories of a subsidiary company have been pledged as collateral for borrowings as explained in Note 26.

17 TRADE RECEIVABLES

	GROUP	
	2010	2009
	RM'000	RM'000
Trade receivables	**113,920**	127,360
Amounts due from customers on contracts (Note 30)	**5,742**	6,547
Less: Provision for impairment of trade receivables	**(5,617)**	(5,164)
Trade receivables (net)	**114,045**	128,743

The credit terms of trade receivables range from 30 days to 120 days (2009: 30 days to 120 days).

In prior year, certain trade receivables of a subsidiary company have been pledged as collateral for borrowings as explained in Note 26.

17 TRADE RECEIVABLES (cont'd)

As at 31 December 2010, trade receivables of RM83.1 million (2009: RM103.1 million) were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings. The age of analysis of these trade receivables is as follows:

	GROUP	
	2010 RM'000	2009 RM'000
Less than three months	**69,853**	80,712
Between three to six months	**5,211**	9,084
Between six months and one year	**4,310**	7,969
Greater than one year	**3,713**	5,352
	83,087	103,117

As at 31 December 2010, trade receivables of RM5.6 million (2009: RM5.2 million) were impaired and provided for. The individually impaired receivables mainly relate to private customers, which are in unexpectedly difficult economic situations. The aging of these receivables is as follows:

	GROUP	
	2010 RM'000	2009 RM'000
Less than three months	**9**	–
Between three to six months	**171**	–
Between six months and one year	**47**	–
Greater than one year	**5,390**	5,164
	5,617	5,164

Movements of the provision for impairment of receivables during the year are as follows:

At 1 January	**5,164**	7,256
Provision for receivables impairment	**543**	171
Receivables written off during the year	**–**	(374)
Write back of provision for impairment of receivables	**(90)**	(1,889)
At 31 December	**5,617**	5,164

17 TRADE RECEIVABLES (cont'd)

The creation and release of provision for impaired receivables have been included in "other expenses" in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

18 OTHER RECEIVABLES

	GROUP		COMPANY	
	2010 **RM'000**	2009 RM'000	**2010** **RM'000**	2009 RM'000
Other receivables	**2,222**	7,098	**–**	–
Prepayments	**11,490**	3,239	**38**	138
Deposits	**720**	743	**28**	28
Advances	**828**	595	**70**	35
	15,260	11,675	**136**	201
Less: Provision for impairment of other receivables	**(2,010)**	–	**–**	–
Other receivables (net)	**13,250**	11,675	**136**	201

As at 31 December 2010, other receivables of the Group and of the Company of RM0.2 million (2009: RM5.1 million) and nil (2009: nil) respectively were past due their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default based on historical dealings. The age of analysis of these other receivables is as follows:

	GROUP		COMPANY	
	2010 **RM'000**	2009 RM'000	**2010** **RM'000**	2009 RM'000
Less than three months	**85**	131	**–**	–
Between three to six months	**32**	–	**–**	–
Between six months and one year	**95**	4,964	**–**	–
	212	5,095	**–**	–

18 OTHER RECEIVABLES (cont'd)

As at 31 December 2010, other receivables of RM2.0 million (2009: Nil) were impaired and provided for. The individually impaired receivables mainly relate to a private customer, which is currently under dispute. The aging of these receivables is as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
Greater than one year	**2,010**	–

Movements of the provision for impairment of other receivables during the year are as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
At 1 January	**–**	62
Provision for receivables impairment	**2,010**	–
Reclassification	**–**	(62)
At 31 December	**2,010**	–

The creation and release of provision for impaired receivables have been included in "other expenses" in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

19 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are unsecured and comprise:

	COMPANY	
	2010	2009
	RM'000	RM'000
Current:		
Interest bearing	**–**	28,829
Interest free	**164,371**	138,680
	164,371	167,509
Less: Provision for impairment of amounts due from subsidiary companies	**(24,131)**	–
	140,240	167,509

As at 31 December 2010, amounts due from subsidiary companies of RM24.1 million (2009: Nil) were impaired and provided for. The individually impaired receivables mainly relate to a subsidiary company, which there is no expectation of recovery. The remaining balances of RM140.2 million were not impaired as there is no expectation of default based on expected future operational cash flows of these subsidiary companies.

The interest bearing portion of the amounts due from a subsidiary company in the previous financial year bears interest rates ranging from 2.96% to 4.75% per annum and has no fixed repayment terms.

Amounts due to subsidiary companies are unsecured and comprise:

	COMPANY	
	2010	2009
	RM'000	RM'000
Current:		
Interest free	**162,178**	122,420

The interest free portion of the amounts due from/(to) subsidiary companies have no fixed repayment terms.

20 AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from related companies arose from billings made under the hospital equipping contracts.

As at 31 December 2010, amounts due from related companies of RM9.1 million (2009: RM15.6 million) were past due their contractual payment date but not impaired. These relate to a number of related parties where there is no expectation of default based on historical dealings. The age analysis of these amounts due from related companies is as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
Less than three months	**–**	3,316
Between three to six months	**321**	264
Between six months and one year	**1,119**	2,534
Greater than one year	**7,661**	9,480
	9,101	15,594

As at 31 December 2010, amounts due from related companies of RM0.5 million (2009: RM0.5 million) were impaired and provided for. The individually impaired balances mainly relate to related parties, which are in unexpectedly difficult economic situations. The aging of these amounts due from related companies is as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
Greater than one year	**495**	495

Movements of the provision for impairment of amounts due from related companies during the year are as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
At 1 January/31 December 2010	**495**	495

20 AMOUNTS DUE FROM/(TO) RELATED COMPANIES (cont'd)

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 (2009: 30 days to 60 days) and the amounts are unsecured and interest free. The amounts due to related companies are as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Amounts due to related companies	**–**	100	**–**	58

21 AMOUNTS DUE FROM/(TO) ASSOCIATED COMPANIES

Amount due from an associated company is similar to the credit term extended to the related companies. The amounts due from associated companies are as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Amount due from associated companies	**559**	3,979	**–**	1,127
Less: Provision for impairment of amount due from associated companies	**–**	(2,190)	**–**	(1,127)
	559	1,789	**–**	–

As at 31 December 2010, amounts due from associated companies of the Group and of the Company is RM0.6 million (2009: RM1.4 million) and nil (2009: nil) respectively were past due their contractual payment date but not impaired. These relate to a number of related parties where there is no expectation of default based on historical dealings. The age of analysis of these amounts due from associated companies is as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Between six months and one year	**559**	1,395	**–**	–

21 AMOUNTS DUE FROM/(TO) ASSOCIATED COMPANIES (cont'd)

As at 31 December 2010, amounts due from associated companies of the Group and of the Company of nil (2009: RM2.2 million) and nil (2009: RM1.1 million) respectively were impaired and provided for. The individually impaired balances mainly relate to related parties, which are in unexpectedly difficult economic situations. The aging of these amounts due from associated companies is as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Greater than one year	**–**	2,190	**–**	1,127

Movements of the provision for impairment of amounts due from associated companies during the year are as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
At 1 January	**2,190**	2,504	**–**	1,127
Provision for impairment	**–**	514	**–**	–
Unused amounts reversed	**(2,190)**	(828)	**–**	(1,127)
At 31 December	**–**	2,190	**–**	–

The creation and release of provision for impaired amounts due from associated companies have been included in "other expenses" in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment. The amounts due to associated companies are as follows:

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Amount due to an associated company	**31**	4,571	**31**	4,566

22 FIXED DEPOSITS, CASH AND BANK BALANCES

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Fixed deposits in licensed banks	**77,761**	60,534	**–**	–
Cash and bank balances	**25,216**	43,874	**836**	2,708

Fixed deposits as at 31 December 2010 have an average maturity period of 17 (2009: 14) days.

During the year, the effective interest rate of fixed deposits was 2.55% (2009: 1.98%) per annum.

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

23 TRADE PAYABLES

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2009: 30 days to 120 days).

24 OTHER PAYABLES

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Other payables	**17,933**	15,526	**87**	390
Accruals	**6,591**	7,532	**485**	895
	24,524	23,058	**572**	1,285

Included in other payables are government grants relating to the Kacip Fatimah project amounting to RM0.7 million (2009: RM2.1 million).

25 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.

26 LOANS AND BORROWINGS

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Short term				
Unsecured:				
– Murabahah Commercial Paper	**–**	13,891	**–**	13,891
– Foreign time loan	**33,050**	–	**–**	–
	33,050	13,891	**–**	13,891
Secured:				
– Foreign time loan	**–**	24,629	**–**	–
Sub-total	**33,050**	38,520	**–**	13,891
Add: Portion of long term borrowings due within 12 months	**17**	19,556	**–**	18,537
	33,067	58,076	**–**	32,428

26 LOANS AND BORROWINGS (cont'd)

	GROUP 2010 RM'000	GROUP 2009 RM'000	COMPANY 2010 RM'000	COMPANY 2009 RM'000
Long term				
Unsecured:				
– Murabahah Medium Term Notes	**–**	14,937	**–**	14,937
– Hire purchase	**76**	–	**–**	–
Secured:				
– Term loan	**–**	8,550	**–**	8,550
– Foreign term loan	**–**	3,498	**–**	–
	76	12,048	**–**	8,550
Sub-total	**76**	26,985	**–**	23,487
Less: Portion of long term borrowings due within 12 months				
Unsecured:				
– Murabahah Medium Term Notes	**–**	(14,937)	**–**	(14,937)
– Hire purchase	**(17)**	–	**–**	–
Secured:				
– Term loan	**–**	(3,600)	**–**	(3,600)
– Foreign term loan	**–**	(1,019)	**–**	–
Sub-total	**(17)**	(19,556)	**–**	(18,537)
	59	7,429	**–**	4,950
Analysis of maturity of long term borrowings:				
– within 1 year	**17**	19,556	**–**	18,537
– between 1 and 2 years	**59**	4,566	**–**	3,600
– between 2 and 5 years	**–**	2,863	**–**	1,350
	76	26,985	**–**	23,487

26 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:

	Effective interest rate % per annum	Fixed interest rate RM'000	Floating interest rate RM'000	Repayment terms <1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	>5 years RM'000	Total carrying amount RM'000
Group										
2010										
Murabahah Commercial Paper	–	–	–	–	–	–	–	–	–	–
Murabahah Medium Term Notes	–	–	–	–	–	–	–	–	–	–
Term loan	–	–	–	–	–	–	–	–	–	–
Foreign time loan*	**10.40**	**33,050**	–	**33,050**	–	–	–	–	–	**33,050**
Foreign term loan*	–	–	–	–	–	–	–	–	–	–
Hire purchase	**11.03**	**76**	–	**17**	**59**	–	–	–	–	**76**
		33,126	–	**33,067**	**59**	–	–	–	–	**33,126**
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

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

26 LOANS AND BORROWINGS (cont'd)

	Effective interest rate % per annum	Fixed interest rate RM'000	Floating interest rate RM'000	Repayment terms <1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	>5 years RM'000	Total carrying amount RM'000
Company										
2010										
Murabahah Commercial Paper	–	–	–	–	–	–	–	–	–	–
Murabahah Medium Term Notes		–	–	–	–	–	–	–	–	–
Term loan	–	–	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–
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

26 LOANS AND BORROWINGS (cont'd)

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

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Ringgit Malaysia	**–**	37,378	**–**	37,378
Indonesian Rupiah	**33,126**	28,127	**–**	–
	33,126	65,505	**–**	37,378

Term loan

In prior year, 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 13) bears an average interest rate of 4.16% per annum.

Foreign term loans

In prior year, the foreign term loans were drawn down for working capital purposes and bear interest rates at 12.75% per annum. All foreign term loans are denominated in Indonesian Rupiah and are secured over certain property, plant and equipment (Note 11), inventories (Note 16) and trade receivables (Note 17) 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. It bears interest rates at 10.40% per annum (2009: 12.75% per annum). In prior year, the foreign time loan is secured over certain property, plant and equipment (Note 11), inventories (Note 16) and trade receivables (Note 17) of the subsidiary company.

27 SHARE CAPITAL

	GROUP AND COMPANY	
	2010 RM'000	2009 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/end of year	**106,978**	106,978

28 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	
	2010	2009
	RM'000	RM'000
Deferred tax assets	**10,945**	3,904
Deferred tax liabilities	**(1,530)**	(3,131)
	9,415	773
At beginning of financial year	**773**	10
Credited/(charged) to income statement (Note 8)		
– property, plant and equipment	**581**	(1,709)
– provisions	**8,333**	1,700
– unutilised tax losses	**(272)**	772
	8,642	763
At end of financial year	**9,415**	773
<u>Subject to income tax</u>		
Deferred tax assets		
– property, plant and equipment	**67**	225
– provisions	**9,535**	4,801
– unutilised tax losses	**1,358**	1,036
	10,960	6,062
Offsetting	**(15)**	(2,158)
	10,945	3,904
Deferred tax liabilities		
– property, plant and equipment	**(1,545)**	(5,289)
Offsetting	**15**	2,158
	(1,530)	(3,131)

28 DEFERRED TAXATION (cont'd)

As at 31 December 2010, 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	
	2010	2009
	RM'000	RM'000
Unutilised business losses	**15,630**	15,629
Unabsorbed capital allowances	**16**	16
	15,646	15,645

The unutilised business losses and unabsorbed capital allowances 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 the Group and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

29 PROVISION FOR DEFINED BENEFIT PLAN

	GROUP	
	2010	2009
	RM'000	RM'000
Non-current	**3,175**	2,449

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

	GROUP	
	2010	2009
	RM'000	RM'000
At 1 January	**2,449**	1,474
Charged to income statement	**720**	460
Benefits paid-unfunded obligations	**(167)**	(87)
Adjustment on last year's balance	**173**	602
At 31 December	**3,175**	2,449

29 PROVISION FOR DEFINED BENEFIT PLAN (cont'd)

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

	GROUP	
	2010	2009
	RM'000	RM'000
Present value of unfunded obligations	**3,175**	2,449
Net liabilities	**3,175**	2,449
The amounts recognised in the income statement are as follows:		
Current service cost	**410**	295
Interest cost	**300**	231
Amortisation of actuarial loss	**–**	(75)
Amortisation of past service cost	**10**	9
Expense recognised in the income statement	**720**	460

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

	GROUP	
	2010	2009
	%	%
Discount rate	**9**	11
Expected rate of salary increase	**7**	8

30 AMOUNTS DUE FROM CUSTOMERS ON CONTRACTS

	GROUP	
	2010	2009
	RM'000	RM'000
Aggregate costs incurred to-date	**33,700**	33,404
Add: Attributable profit	**5,608**	4,617
	39,308	38,021
Less: Progress billings	**(33,566)**	(31,474)
Amounts due from customers (Note 17)	**5,742**	6,547
Contract revenue recognised during the financial year (Note 4)	**5,306**	10,413
Contract costs recognised as expense during the financial year (Note 5)	**4,044**	8,445

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

31 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting – Business segments

	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
Group						
2010						
Revenue						
External sales	**394**	**1,371,956**	**5,998**	**–**	**–**	**1,378,348**
Intersegment sales	**137,547**	**7,705**	**215**	**5,925**	**(151,392)**	**–**
Total revenue	**137,941**	**1,379,661**	**6,213**	**5,925**	**(151,392)**	**1,378,348**
Results						
Segment results	**22,656**	**32,458**	**18**	**(27,013)**	**53,218**	**81,337**
Unallocated corporate expenses						**(31,725)**
Profit from operations						**49,612**
Interest expense	**–**	**(3,903)**	**–**	**(946)**	**806**	**(4,043)**
Interest income	**–**	**1,028**	**–**	**806**	**(806)**	**1,028**
Share of results of associated company						**(1,135)**
Profit before zakat and taxation						**45,462**
Income tax expense						**(13,190)**
Zakat						**(1,962)**
Net profit for the financial year						**30,310**

31 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting – Business segments (cont'd)

	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
Group						
2010						
Other information						
Segment assets	**428,378**	**635,152**	**44,018**	**329,105**	**(640,200)**	**796,453**
Investment in associated companies						**5,427**
Total assets						**801,880**
Segment liabilities	**214,691**	**449,958**	**27,681**	**187,626**	**(515,549)**	**364,407**
Capital expenditure on property, plant and equipments	**11,741**	**4,434**	**1**	**–**	**–**	**16,176**
Depreciation	**8,448**	**5,262**	**20**	**–**	**350**	**14,080**
Amortisation of prepaid lease payments	**10**	**73**	**–**	**–**	**–**	**83**
Non cash expenses other than depreciation and amortisation	**2,042**	**27,513**	**9**	**23,982**	**(24,131)**	**29,415**

31 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting – Business segments (cont'd)

	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
Group						
2009						
Revenue						
External sales	1,942	1,284,402	14,452	–	–	1,300,796
Intersegment sales	138,574	–	–	12,694	(151,268)	–
Total revenue	140,516	1,284,402	14,452	12,694	(151,268)	1,300,796
Results						
Segment results	23,268	60,346	(2,336)	786	19,826	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)
Net profit for the financial year						61,727

31 SEGMENTAL REPORTING (cont'd)

(a) Primary reporting – Business segments (cont'd)

	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
Group						
2009						
Other information						
Segment assets	447,811	595,436	48,540	357,011	(637,115)	811,683
Investment in associated companies						6,562
Total assets						818,245
Segment liabilities	250,828	370,429	32,681	189,669	(471,698)	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

31 SEGMENTAL REPORTING (cont'd)

(b) Secondary reporting – Geographical segments

	Revenue from external customers RM'000	Total segment assets RM'000	Capital expenditure and intangible assets incurred during the year RM'000
Geographical markets			
2010			
Malaysia	**1,062,171**	**705,418**	**15,356**
Indonesia	**301,170**	**96,462**	**820**
Other countries	**15,007**	**–**	**–**
	1,378,348	**801,880**	**16,176**
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

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.

32 CAPITAL COMMITMENTS

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

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Authorised and contracted for: – acquisition of property, plant and equipment	**9,011**	1,652	**–**	–
Authorised but not contracted for: – acquisition of property, plant and equipment	**2,237**	–	**–**	–

33 CONTINGENT LIABILITIES – UNSECURED

	GROUP		COMPANY	
	2010 RM'000	2009 RM'000	**2010 RM'000**	2009 RM'000
Corporate guarantee given to financial institution for credit facilities extended to a subsidiary company	**–**	–	**–**	26,423
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	**22,528**	11,452	**–**	–

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group and Company, if the Group and Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making any financial and operating decisions, or vice versa, or where the Group or Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to related party disclosures elsewhere in the financial statements, set out below are other related party transaction and balances.

The related party transactions described below were carried out on terms and conditions agreed by the related parties.

	GROUP	
	2010	2009
	RM'000	RM'000
(a) Sales of goods and services		
Sales of goods:		
– Related company		
• supply of medical equipment	**961**	4,474
– Company within the immediate holding company		
• sale of disinfectant range of products	**2,188**	1,680
	3,149	6,154

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

	GROUP	
	2010	2009
	RM'000	RM'000
(b) Purchases of services		
Purchases of services:		
– Related companies		
• Transportation and freight forwarding services	**2,389**	2,562
• Provision of scheduled waste treatment and disposal services	**272**	235
– Companies within the immediate holding company		
• Training and administration services	**1,316**	591
– An associated company		
• Provision of IT consultancy, technical support services and granting of software license	**11,661**	18,321
	15,638	21,709

	COMPANY	
	2010	2009
	RM'000	RM'000
Dividend income from a subsidiary company	**39,000**	21,990
Advances from a subsidiary company for:		
• Redemption of Murabahah Commercial Papers	**14,000**	16,000
• Redemption of Murabahah Medium Term Notes	**15,000**	15,000
Finance expense charged to subsidiary companies for:		
• Profit for Murabahah Commercial Papers	**272**	646
• Profit for Murabahah Medium Term Notes	**534**	1,388
	68,806	55,024

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(c) Remuneration of key management personnels

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Salaries, bonus and allowances	**2,808**	2,832	**1,099**	1,513
Social contribution cost	**2**	–	**–**	–
Defined benefit plans	**–**	190	**–**	120
Defined contribution plan	**307**	345	**132**	187
Estimated monetary value of benefits by way of usage of Group assets	**115**	22	**14**	20
Others	**217**	190	**144**	129
	3,449	3,579	**1,389**	1,969

(d) Significant outstanding balances

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

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	RM'000	RM'000	**RM'000**	RM'000
Amount due from related parties				
Subsidiary companies	**–**	–	**164,371**	167,509
Related companies	**9,614**	15,699	**–**	–
Associated companies	**559**	1,789	**–**	–
Amount due to related parties				
Immediate holding company	**97**	428	**97**	428
Subsidiary companies	**–**	–	**162,178**	122,420
Related companies	**–**	100	**–**	58
Associated companies	**31**	4,571	**31**	4,566

Outstanding balances with the above related parties arose from normal trade transactions during the financial year.

35 SIGNIFICANT EVENTS

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

(a) 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.

(b) On 19 January 2011, Bursa Malaysia Securities Berhad (''Bursa Securities") had vide its letter dated 18 January 2011, granted a futher extension of time of six (6) months from 29 December 2010 until 28 June 2011 for Pharmaniaga Berhad to comply with the Public Spread Requirement.

36 MATERIAL LITIGATION

Since the preceding financial year ended 31 December 2009, there are no changes in material litigation as at the date of this announcement except for the following:

Counterclaims by former Directors of Safire Pharmaceuticals (M) Sdn Bhd

The Company announced on 18 January 2005, that Safri bin Nawawi (''Safri") and Hamimah Binti Idruss (''Hamimah"), 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 application on 14 July 2009. Subsequently, Safri filed a 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 Pharmaniaga upon consultation with the solicitors is of the opinion that the positions of both the Company and Safire are defendable.

37 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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.

Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, EURO and the Rupiah. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2010, if the functional currency had weakened/strengthened by 5% against the IDR with all other variables held constant, the impact on equity would have been approximately RM73,000 higher/lower on translation upon consolidation. No impact on income statement as the financial assets and liabilities denominated in IDR are in respect of a foreign subsidiary where the trade is conducted in the entity's functional currency.

The financial assets and liabilities of the Group 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 31.12.2010		
	US Dollar RM'000	Euro RM'000	IDR RM'000
Trade receivables	**2,613**	**–**	**43,335**
Deposits, bank and cash balances	**382**	**–**	**6,406**
Trade payables	**(2,276)**	**(271)**	**(24,235)**
Loans and borrowings	**–**	**–**	**(33,126)**
	719	**(271)**	**(7,620)**

37 FINANCIAL RISK MANAGEMENT (cont'd)

Financial risk factors (cont'd)

(a) Market risk (cont'd)

(i) Foreign exchange risk (cont'd)

	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)
Loans and borrowings	–	–	(28,127)
	(2,427)	(82)	(5,613)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2010 and 2009, the group's borrowings at fixed rate were denominated in the Currency and the Rupiah.

(b) Credit risk

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

37 FINANCIAL RISK MANAGEMENT (cont'd)

Financial risk factors (cont'd)

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 26) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months RM'000	Between 3 months and 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 5 years RM'000	Above 5 years RM'000
At 31 December 2010					
Borrowings	**–**	**33,067**	**59**	**–**	**–**
Trade payables	**195,137**	**102,527**	**2,455**	**252**	**125**
Other payables	**9,174**	**2,008**	**553**	**–**	**–**
Amount due to immediate holding company	**–**	**97**	**–**	**–**	**–**
Amount due to associated companies	**–**	**–**	**31**	**–**	**–**
At 31 December 2009					
Borrowings	–	58,076	4,566	2,863	–
Trade payables	174,673	82,706	10,250	514	560
Other payables	5,656	2,606	1,073	–	–
Amount due to immediate holding company	–	428	–	–	–
Amount due to related companies	–	100	–	–	–
Amount due to associated companies	1,516	3,055	–	–	–

37 FINANCIAL RISK MANAGEMENT (cont'd)

Capital risk management

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010 RM'000	2009 RM'000
Total borrowings (Note 26)	**33,126**	65,505
Total equity	**437,473**	446,336
Gearing ratio	**7.6%**	14.7%

The decrease in the gearing ratio during 2010 resulted primarily from the settlement of borrowings.

38 FAIR VALUES

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximated their fair values except as set out below:

	2010		2009	
	Carrying value RM'000	**Fair value RM'000**	Carrying value RM'000	Fair value RM'000
Group				
Financial liabilities				
Non current				
Loans and borrowings	**59**	**49**	7,429	6,280
Company				
Financial liabilities				
Non current				
Loans and borrowings	–	–	4,950	4,388

The fair values are based on cash flows discounted using a rate based on the borrowing rates of 9.80% to 11.03% (2009: 4.16% to 12.75%) per annum.

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

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 11 March 2011.

40 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

The retained profits as at 31 December 2010 is analysed as follows:

	GROUP	
	2010	2009
	RM'000	RM'000
Total retained profits of the Group and its subsidiaries:		
– realised profits	**376,233**	376,472
– unrealised (loss)/profits	**(1,140)**	2,332
	375,093	378,804
Total share of retained profits from associated companies:		
– realised profits	**3,004**	4,115
	378,097	382,919
Less: Consolidation adjustments	**(81,793)**	(79,290)
Total Group retained profits as per consolidated accounts	**296,304**	303,629

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

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 31/12/2010 (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 an an inflammable store	23,594	Freehold	16	29,076	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	13	15,266	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	10	70,092	21 August 2001
Lot PT 1157, H.S. (M) 9726 Mukim of Kajang, Hulu Langat Selangor **Factory:** No 11A, Jalan P/1 Kawasan Perindusrian Bangi 43650 Bandar Baru Bangi, Selangor	A parcel of industrial land with 3 industrial buildings, a office/ workshop, a canteen, a TNB sub-station and a guard house	12,141	Leasehold of 99 years, expiring on 29 September 2086	25	29,231	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	14	7,229	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 31/12/2010 (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	8/36	4,111	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 11/2 semi detached warehouse with office	2,175	Freehold	13	1,209	11 November 1998
Flat Nos. 401-405 3rd Floor, Block 5 Jalan 1/9 Section 1 43650 Bandar Baru Bangi, Selangor	5 units of 2 –bedroom flat for staff lodging	296	Leasehold of 99 years, expiring on 31 March 2095	17	24	10 June 1993 and 19 July 1995
Flat Nos. 501, 503, 505 and 507 4th Floor, Block 10 Jalan 6C/11, Section 16 43650 Bandar Baru Bangi Selangor	4 units of 2-bedrooms flat for staff lodging	262	Leasehold of 99 years, expiring on 31 March 2095	15	14	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	24	16.5	4 September 1987

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 31/12/2010 (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	24	16.5	4 September 1987
Blok D. 20 & 21 Ruko Grand Mal Bekasi	Shop lots	Building 453 Land 136	Freehold 15 years to 24 September 2013	8	122	13 October 2003
Jalan Depsos 67 – 70 Bintaro Jaksel	Office and warehouse	Building 965 Land 1,860	Freehold 30 years to 7 July 2028	11	1,048	14 January 1999 Revaluation 2001
Apartmen Permata Eksekutif Jalan Pos Pengumben Raya Jak-Bar	Shop lots	Building 146	Freehold 20 years to 2015	7	191	6 May 2004
Jalan Kalibokor Selatan 152 Surabaya	Office and warehouse	Building 820 Land 1,133	Leasehold 5 years to 30 June 2011(in progress to extend)	29	114	4 November 1971 Revaluation 2001

ANALYSIS OF SHAREHOLDINGS
as at 14 April 2011

SHARE CAPITAL

Authorised Share Capital	:	RM300,000,000.00
Issued and Paid-up Share Capital	:	RM106,977,788.00 divided into 106,977,788 ordinary shares of RM1.00 each
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share held

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Share Capital
Less than 100	280	25.93	7,810	0.01
100 to 1,000	444	41.11	149,666	0.14
1,001 to 10,000	298	27.59	1,044,709	0.98
10,001 to 100,000	47	4.35	1,285,000	1.20
100,001 to less than 5% of issued shares	10	0.93	11,045,000	10.32
5% and above of the issued shares	1	0.09	93,445,603	87.35
TOTAL	**1,080**	**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 Share Capital
1.	Boustead Holdings Berhad	93,445,603	87.35
2.	Amanahraya Trustees Berhad *Skim Amanah Saham Bumiputera*	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.	HLG Nominee (Tempatan) Sdn Bhd *Hong Leong Fund Management Sdn Bhd For Hong Leong Assurance Bhd (Life)*	225,000	0.21
9.	PM Nominees (Tempatan) Sdn Bhd *PCB Asset Management Sdn Bhd For Mui Continental Insurance Berhad*	153,600	0.14

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

No.	Name of Shareholders	No. of Shares Held	% of Issued Share Capital
10.	HLG Nominee (Tempatan) Sdn Bhd *Hong Leong Fund Management Sdn Bhd For Hong Leong Assurance Bhd (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.	HDM Nominees (Tempatan) Sdn Bhd *Pledged Securities Account For Sleuths Holdings Sdn Bhd (M12)*	80,000	0.07
13.	Kenanga Investment Bank Berhad *Exempt An CLR (B3) For Credit Suisse*	78,500	0.07
14.	Jenny Wong	73,300	0.07
15.	HLG Nominee (Tempatan) Sdn Bhd *Hong Leong Bank Bhd For Teh Shiou Cherng*	56,000	0.05
16.	Amanahraya Trustees Berhad *Amanah Saham Gemilang For Amanah Saham Pendidikan*	50,000	0.05
17.	Perng Huey Yunn	49,200	0.05
18.	Teng Wee Eng	48,000	0.04
19.	Wong Nyet Lan	45,600	0.04
20.	Liew Wai Kiat	40,000	0.04
21.	Pang Tee Chew	40,000	0.04
22.	Mayban Nominees (Tempatan) Sdn Bhd *Pledged Securities Account For Mak Kin Wah*	35,300	0.03
23.	Hoh Thiam Fatt @ Hoh Yuen Fun	35,000	0.03
24.	Lim Boon Chee	33,900	0.03
25.	Leong Wai Hong	32,000	0.03
26.	Abdul Rahim Bin Bidin	30,500	0.03
27.	Mayban Nominees (Tempatan) Sdn Bhd *Pledged Securities Account For Tiong Kiong King*	30,000	0.03
28.	CIMSEC Nominees (Tempatan) Sdn Bhd *CIMB For Raja Nong Chik bin Raja Zainal Abidin (PB)*	27,000	0.03
29.	Mayban Nominees (Tempatan) Sdn Bhd *Lim Boon Chee*	25,100	0.02
30.	Ong Ee Puay	22,000	0.02
	TOTAL	**105,322,003**	**98.00**

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

		No. of Shares Held			
No.	Name of Substantial Shareholders	Direct	%	Indirect	%
1.	Boustead Holdings Berhad	93,445,603	87.35	–	–

DIRECTORS' SHAREHOLDING (as per the Register of Directors' Shareholding)

No.	Name of Directors	Direct	%	Indirect	%
1.	Datuk Mohamed Azman bin Yahya	–	–	10,000[1]	0.01
2.	Datuk Sulaiman bin Daud	–	–	–	–
3.	Emeritus Prof Dato' Wira Ir. Dr. Mohammad Noor bin Hj. Salleh	–	–	–	–
4.	Mr. Oh Kim Sun	–	–	97,000[2]	0.09
5.	Dato' Farshila binti Emran	–	–	–	–
6.	Mr. Daniel Ebinesan	–	–	–	–
7.	En. Izzat bin Othman	–	–	–	–

Notes

[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 and 17,000 shares held through Melval Holdings 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 has been granted a further extension of time of six (6) months from 29 December 2010 until 28 June 2011 to comply with the Public Spread Requirement.

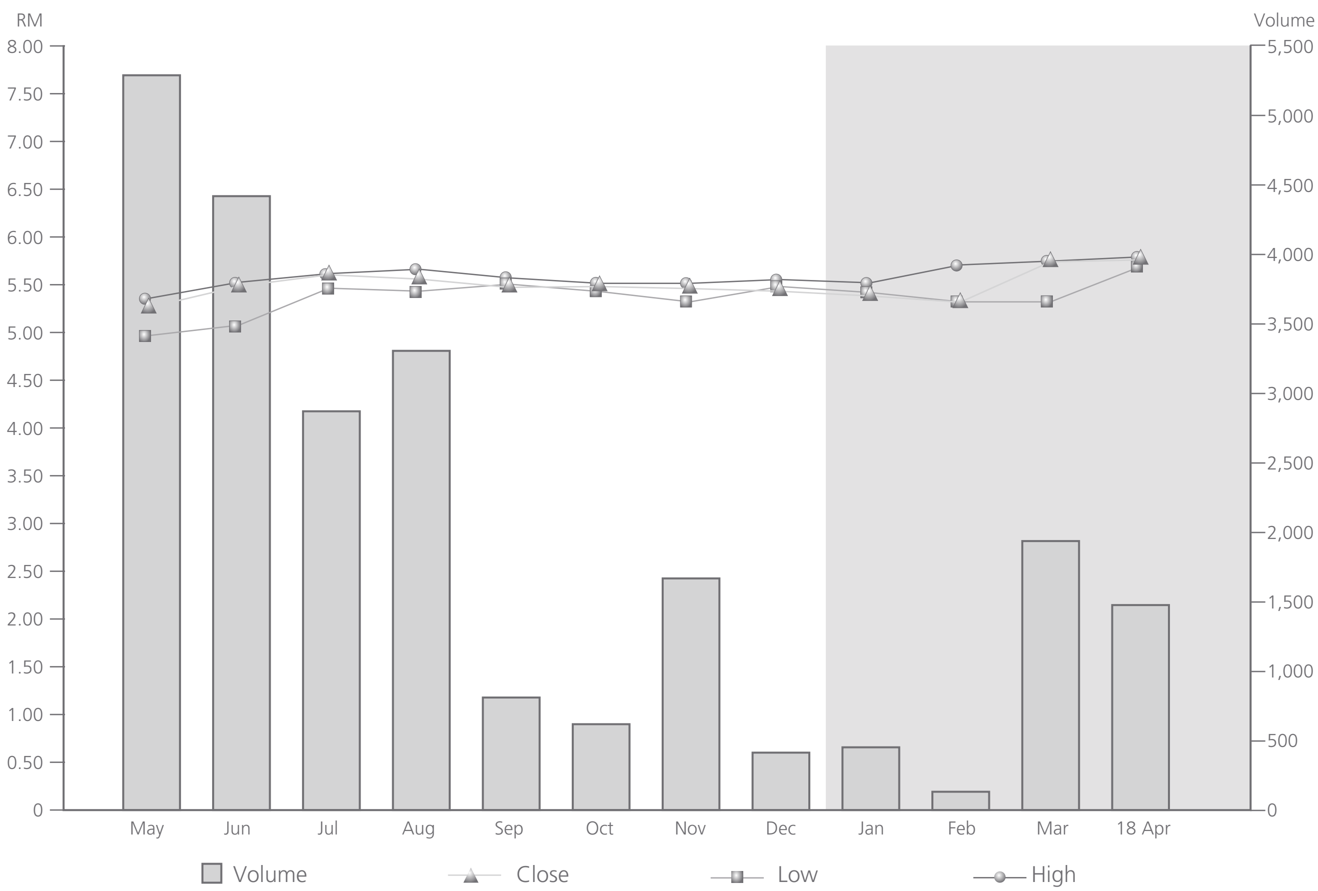
Boustead Holdings Berhad, the major shareholder of the Company intents to maintain the listing status of Pharmaniaga.

As at 14 April 2011, Pharmaniaga Berhad's public shareholding spread stood at 12.53%.

SHARE PERFORMANCE

for the period May 2010 – 18 April 2011

	2010								2011			
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	18 Apr
High (RM)	5.35	5.52	5.61	5.66	5.56	5.51	5.50	5.55	**5.50**	**5.70**	**5.73**	**5.78**
Low (RM)	4.95	5.05	5.44	5.41	5.48	5.41	5.30	5.45	**5.40**	**5.30**	**5.30**	**5.67**
Close (RM)	5.26	5.48	5.60	5.55	5.48	5.45	5.48	5.45	**5.40**	**5.30**	**5.73**	**5.78**
Volume	5,296	4,415	2,888	3,309	824	627	1671	425	**451**	**142**	**1,941**	**1,488**



GROUP CORPORATE DIRECTORY

List of Companies	Address
Pharmaniaga Berhad **Pharmaniaga Logistics Sdn Bhd** **Pharmaniaga Biomedical Sdn Bhd** **Pharmaniaga Marketing Sdn Bhd** **Pharmaniaga Research Centre Sdn Bhd**	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 **Mailing address** P.O. Box 2030, Pusat Bisnes Bukit Raja 40800 Shah Alam Selangor Darul Ehsan
Pharmaniaga Manufacturing Berhad	11A Jalan P/1, Kawasan Perusahaan Bangi 43650 Bandar Baru Bangi Selangor Darul Ehsan Tel: +603-8925 7880 Fax: +603-8925 6177
Pharmaniaga LifeScience Sdn Bhd	Lot 7, Jalan PPU 3 Taman Perindustrian Puchong Utama 47100 Puchong Selangor Darul Ehsan Tel: +603-8061 2006 Fax: +603-8061 2875
Pharmaniaga Logistics Sdn Bhd (Juru Branch)	1,3, & 5, Lorong IKS Juru 8 Taman Perindustrian Ringan Juru 14100 Simpang Ampat Seberang Prai Pulau Pinang, Tel: +604-508 3330/1/2 Fax: +604-508 3111
Pharmaniaga Logistics Sdn Bhd (Kuching Branch)	Lot 1024, Block 7, Muara Tebas Land District Demak Laut Industrial Park, 93050 Kuching, Sarawak Tel: +6082-432 800 Fax: +6082-432 806
Pharmaniaga Logistics Sdn Bhd (Kota Kinabalu Branch)	Lorong Kurma, Kolombong Industrial Centre KM 9 Off Jalan Tuaran 88450 Kolombong, Kota Kinabalu, Sabah Tel: +6088-439 188 Fax: +6088-437 288
PT Millennium Pharmacon International Tbk (HQ)	Panin Bank Centre, 9th Floor, Jl-Jendral Sudirman Senayan, Jakarta, 10270 Indonesia Tel: +62-21 727 88906/7 Fax: +62-21 722 8090

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pharmaniaga (467709-M)

(Incorporated in Malaysia)

No. of shares held	Please fill in CDS Account No.
	– –

PROXY FORM

I/We ____

(FULL NAME IN BLOCK LETTERS)

of ____

(FULL ADDRESS)

being a member/members of **PHARMANIAGA BERHAD** hereby appoint ____

____

(FULL NAME IN BLOCK LETTERS)

of ____

(FULL ADDRESS)

or failing him/her, ____

(FULL NAME OF PROXY IN CAPITAL LETTERS AS PER NRIC/PASSPORT)

of ____

(FULL 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 Thirteenth Annual General Meeting of the Company to be held at 4th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur on **Tuesday, 7 June 2011** at **10.30 a.m.** and at any adjournment thereof.

No.	Ordinary Resolution	For	Against
1.	To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2010 together with the Reports of the Directors and the Auditors thereon.		
2.	To re-elect Tan Sri Dato' Lodin bin Wok Kamaruddin as Director of the Company.		
3.	To re-elect Dato' Farshila binti Emran as Director of the Company.		
4.	To re-elect Mr. Daniel Ebinesan as Director of the Company.		
5.	To re-elect En. Izzat bin Othman as Director of the Company.		
6.	To re-elect En. Mohd Suffian bin Hj. Haron as Director of the Company.		
7.	To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2010.		
8.	To re-appoint Messrs. PricewaterhouseCoopers as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.		
9.	To empower the Directors of the Company to issue shares pursuant to Section 132D of the Companies Act, 1965.		
10.	To approve the Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
11.	To approve the Shareholders' Mandate for New Recurrent Related Party Transactions of a Revenue or Trading Nature.		

Dated this ______________ day of ______________ 2011

____

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)

Level 6, Symphony House
Block D13, Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
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

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Fax : +603-33417777

www.pharmaniaga.com