



## Contents

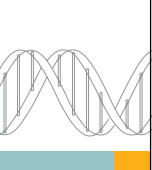
<b>02</b>	Corporate Information
<b>03</b>	Corporate Structure
<b>04</b>	Directors' Information
<b>08</b>	Chairman's Statement
<b>12</b>	The ABC of our Business
<b>17</b>	Corporate Governance Statement
<b>21</b>	Statement on Internal Control
<b>23</b>	Report of the Audit Committee
<b>27</b>	Report of the Remuneration Committee
<b>29</b>	Report of the Nomination Committee

## Financial Statements

<b>32</b>	Directors' Report
<b>37</b>	Statement by Directors
<b>37</b>	Statutory Declaration
<b>38</b>	Report of the Auditors
<b>39</b>	Income Statements
<b>40</b>	Balance Sheets
<b>41</b>	Consolidated Statement of Changes in Equity
<b>42</b>	Company Statement of Changes in Equity
<b>43</b>	Cash Flow Statements
<b>45</b>	Notes to the Financial Statements

<b>81</b>	List of Properties
<b>83</b>	Analysis of Shareholdings
<b>86</b>	Notice of Annual General Meeting
<b>88</b>	Statement Accompanying Notice of Annual General Meeting
	Form of Proxy
	Directory of Distribution Depots



## Corporate Information

### BOARD OF DIRECTORS

Mr Kee Tah Peng @ Hee Teck Peng  
*Non-Executive Chairman*

Dr Kee Kirk Chin  
*Group Managing Director*

Mr Robert Dobson Millner  
*Non-Executive Director*

Mr Leong Khai Cheong  
*Senior Independent Non-Executive Director*

Mr Jackson Chevalier Yap-Kit-Siong  
*Non-Executive Director*

Hj Mohd Ramli bin Samian  
*Non-Executive Director*

Dr Ahmad Kamal bin Md Alif  
*Independent Non-Executive Director*

Mr Ki Tak Sang @ Kee Tak Sang  
*Alternate Director to Mr Kee Tah Peng*

### COMPANY SECRETARIES

Yeoh Chong Keat (*MIA 2736*)

Kwong Lien Wah (*MIA 3422*)

### REGISTERED OFFICE

134/2, Kompleks Perniagaan Munshi Abdullah  
Jalan Munshi Abdullah  
75100 Melaka  
Malaysia  
Tel : +606-284 7381  
Fax : +606-283 2140

### GROUP WEBSITES

[www.apexpharmacy.com](http://www.apexpharmacy.com)  
[www.xepasp.com](http://www.xepasp.com)  
[www.grafton.com.sg](http://www.grafton.com.sg)  
[www.luyangroup.com](http://www.luyangroup.com)

### PRINCIPAL BANKERS

**HSBC Bank Malaysia Berhad**  
777, Jalan Hang Tuah  
75300 Melaka

**Malayan Banking Berhad**  
Menara Maybank  
100, Jalan Tun Perak  
50050 Kuala Lumpur

**OCBC Bank (Malaysia) Berhad**  
6, Lorong Hang Jebat,  
75200 Melaka

**United Overseas Bank (Malaysia) Berhad**  
1, Jalan PM 5,  
Plaza Mahkota  
75000 Melaka

### AUDITORS

**Ernst & Young**  
Level 23A  
Menara Milenium  
Jalan Damanlela  
Pusat Bandar Damansara  
50490 Kuala Lumpur

### LEGAL ADVISORS

**Chee Siah Le Kee & Partners**  
Advocates & Solicitors  
105 Taman Melaka Raya  
75000 Melaka

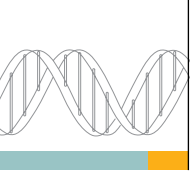
**Wong Beh & Toh**  
Advocates & Solicitors  
Level 12 West Block  
Wisma Selangor Dredging  
142-C Jalan Ampang  
50450 Kuala Lumpur

### SHARE REGISTRARS

**PFA Registration Services Sdn. Bhd.**  
Level 13, Uptown 1  
No. 1, Jalan SS21/58,  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +603-7725 4888  
Fax : +603-7722 2311

### STOCK EXCHANGE LISTING

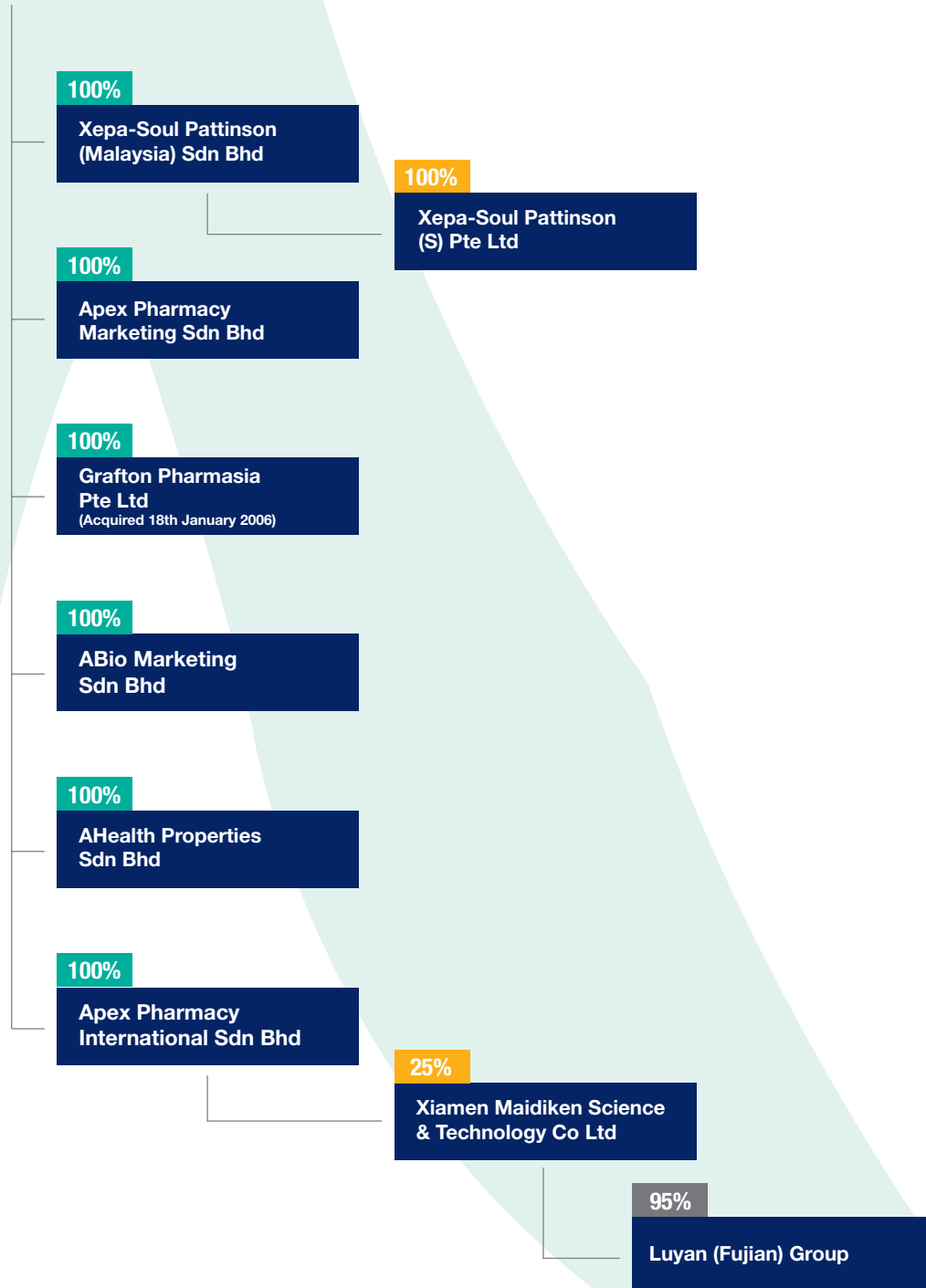
Bursa Malaysia Securities Berhad  
Main Board  
Stock Code : 7090  
Stock Name: AHEALTH

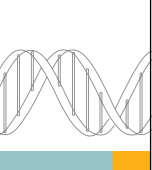


## Corporate Structure



Apex Healthcare Berhad (473108-T)





## Directors' Information

Pursuant to paragraph 9.25 and Appendix 9C Part A(3) of the  
Bursa Securities Listing Requirements

### **MR KEE TAH PENG @ HEE TECK PENG**

*Non-Executive Chairman*

Kee Tah Peng @ Hee Teck Peng, 75, a Singaporean, was appointed to the Board on 15th February 2000 and as Executive Chairman of the Company on 3rd March 2000. He became Non-executive Chairman of the Company on 1st January 2003. He graduated with a Pharmaceutical Chemist Certificate issued by the Pharmacy Board of New South Wales, Australia from University of Sydney, Australia in 1958. He started his career as a pharmacist with Federal Dispensary, Singapore, a pharmaceutical retailer and wholesaler. In 1962, he left to establish Apex Pharmacy Sdn Bhd and Xepa-Soul Pattinson (Malaysia) Sdn Bhd in Melaka, eventually becoming the Group Managing Director.

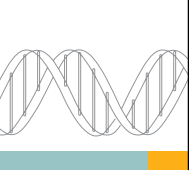
He is the father of Dr Kee Kirk Chin and the cousin of Ki Tak Sang. He is deemed to be a substantial shareholder of the Company as he is a substantial shareholder and director of Apex Pharmacy Holdings Sdn Bhd, which holds 39.4% equity in the Company. Save as disclosed above, he does not have any family relationships with any other director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.

### **DR KEE KIRK CHIN**

*Group Managing Director*

Dr. Kee Kirk Chin, 44, a Singaporean, was appointed to the Board on 15th February 2000, as the Managing Director of the Company on 3rd March 2000 and as a member of the Audit Committee on 24th August 2005. He obtained a Bachelor in Arts with Honours in 1985, a M.B.B. Chir. in 1987, a Master of Arts in 1989 from University of Cambridge, UK and a Master of Business Administration ("MBA") with distinction in 1993 from University of Hull, UK. He is a registered Medical Practitioner with the Singapore Medical Council and the General Medical Council, UK. He began his career as a House Officer with National University Hospital, later joining United MediCorp Pte. Ltd as Director of Business Development in 1990, becoming its Chief Executive Officer in 1996. United MediCorp had interests in several healthcare companies in six Asian countries involved in pharmaceuticals, clinical equipment, hospital support services and private hospitals. He is an independent non-executive director of the Board and member of the Audit Committee of Times Publishing Limited, a company incorporated in Singapore.

He is the son of Kee Tah Peng and the nephew of Ki Tak Sang. He is deemed to be a substantial shareholder of the Company as he is a substantial shareholder and Director of Apex Pharmacy Holdings Sdn Bhd, which holds 39.4% equity in the Company. Save as disclosed above, he does not have any family relationships with any other director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.



## Directors' Information (cont'd)

Pursuant to paragraph 9.25 and Appendix 9C Part A(3) of the Bursa Securities Listing Requirements

### MR ROBERT DOBSON MILLNER

*Non-Executive Director*

Robert Dobson Millner, 55, an Australian, was appointed as a Non-Executive Director of the Company on 23rd February 2000 and is currently Chairman of the Nomination Committee. He was a farmer and grazier prior to joining the Board of Washington H Soul Pattinson & Co Limited ("WHSP") in 1984, a company listed on the Australian Stock Exchange with principal activities in properties, coal mining, bulk handling, commercial television, manufacturing, wholesaling and retailing of pharmaceutical products, essences, food colours, perfumes and aromatic chemicals, fruit juices and reconstitution and extrusion of polyethylene. He was appointed Deputy Chairman of WHSP in 1997, becoming its Chairman in 1998. He is also the Chairman of Brickworks Limited, Choiseul Investments Limited, Milton Corporation Limited, New Hope Corporation Limited, and Director on the Boards of Australian Pharmaceutical Industries Limited and Soul Pattinson Telecommunication Limited, all of which are companies listed on the Australian Stock Exchange. He is a member of the Institute of Company Directors, New South Wales, Australia and a fellow of the Australian Institute of Directors.

He is a Director of WHSP, which holds 16.9% equity in the Company. He does not have any family relationship with any other director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.

### MR LEONG KHAI CHEONG

*Senior Independent*

*Non-Executive Director*

Leong Khai Cheong, 55, a Malaysian, was appointed as an Independent Non-Executive Director of the Company on 18th February 2000 and as Senior Independent Non-Executive Director on 24th August 2005. He is also the Chairman of the Audit Committee and a member of the Nomination Committee. He is a Chartered Accountant and a Fellow of the Association of Chartered Certified Accountants, UK, and a Certified Public Accountant, Singapore. He holds associate membership of the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators. He was the General Manager - Finance & Control with George Kent (M) Bhd until he joined Singapore listed United Engineers Limited ("UEL") as its General Manager for Group Finance & Administration and Company Secretary from 1988 to 1996. He is currently a director of a private Malaysian company involved in the manufacture and assembly of engineering and other equipment and provision of engineering services for the water industries.

He does not have any family relationship with any director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.



## Directors' Information (cont'd)

Pursuant to paragraph 9.25 and Appendix 9C Part A(3) of the  
Bursa Securities Listing Requirements

**MR JACKSON CHEVALIER  
YAP-KIT-SIONG**

*Non-Executive Director*

Jackson Chevalier Yap-Kit-Siong, 54, a Singaporean, was appointed as a Non-Executive Director of the Company on 15th February 2000. He is currently the Chairman of the Remuneration Committee. He graduated with a Bachelor of Engineering with Honours from University of Auckland, New Zealand in 1974 under a Colombo Plan Scholarship.

He worked in various technical and management positions in the oil and gas sector with several multinational corporations before joining United Engineers Limited ("UEL") in 1997 as Chief Operating Officer. Currently he is the Group Managing Director and Chief Executive Officer of UEL, a company listed on the Singapore Stock Exchange, whose principal activities are in the construction and engineering of buildings, properties and environmental projects.

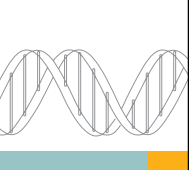
He is a director of Apex Pharmacy Holdings Sdn Bhd, which holds 39.4% equity in the Company. Save as disclosed above, he does not have any other family relationships with any director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.

**HJ. MOHD RAMLI BIN SAMIAN**

*Non-Executive Director*

Hj. Mohd Ramli bin Samian, 55, a Malaysian, was appointed as a Non-Executive Director of the Company on 25th February 2000 and is currently a member of the Remuneration Committee. He is a Chartered Management Accountant from the Chartered Institute of Management Accountants, (United Kingdom since 1975) and subsequently pursued Post-Graduate studies in Advertising Administration from Watford University, UK in 1976. Upon returning to Malaysia in 1976, he joined Bank Pembangunan holding various positions in the Bank and has been the General Manager of the Infrastructure Banking Sector since 1999.

He does not have any family relationship with any director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.



## Directors' Information (cont'd)

Pursuant to paragraph 9.25 and Appendix 9C Part A(3) of the Bursa Securities Listing Requirements

### **DR AHMAD KAMAL BIN MD. ALIF**

*Independent Non-Executive Director*

Dr Ahmad Kamal bin Md Alif, 59, a Malaysian, was appointed as Independent Non-Executive Director of the Company on 23rd May 2001. He is member of the Audit, Remuneration and Nomination Committees. He graduated with an M.B.B.S. in 1972 from the University of Malaya's Faculty of Medicine and trained as a radiologist at the Royal Free Hospital, London under a Colombo Plan scholarship from 1975 to 1978. He is a Fellow of the Royal College of Radiologists (England) and a member of the Academy of Medicine (Malaysia). He was appointed as Assistant Lecturer, Faculty of Medicine UKM, in 1973, eventually becoming Associate Professor and Head of the Department of Radiology UKM in 1978. He was also the Deputy Dean, Faculty of Medicine, UKM, from 1982 - 1983. He left for private practice in 1984 and is currently practising on a locum basis as a Consultant Radiologist with Putra Specialist Hospital, (formerly known as The Southern Hospital), Melaka, since his retirement in 2004.

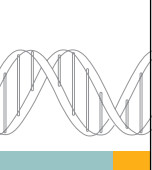
He does not have any family relationship with any director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended three of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.

### **MR KI TAK SANG @ KEE TAK SANG**

*Alternate Director to Kee Tah Peng*

Ki Tak Sang @ Kee Tak Sang, PJK, JP, 62, a Malaysian, served as a Director from 15th February 2000 until 24th August 2005 at which time he resigned and was re-appointed as an Alternate Director. He was Executive Director and Financial Controller of the Company from 3rd March 2000 to 1st October 2003, and currently is Executive Director of Apex Pharmacy International Sdn Bhd, a wholly-owned subsidiary of the Company which holds the Group's investment in China. He has been a Fellow of the Association of International Accountants, UK since 1984 and started his career with Apex Pharmacy Sdn Bhd as its Financial Controller in 1970, later becoming its Finance Director in 1980. He was also an Accounts Executive in Xepa-Soul Pattinson (Malaysia) Sdn Bhd in 1974, later becoming its Finance Director in 1992. He is also a Non-Executive Director of Polymate Holdings Bhd, a company listed on the Main Board of the Bursa Malaysia Securities Berhad. He was conferred with a PJK medal in 1996 and the JP in 2001 by the Yang Di Pertua Negeri Melaka.

He is the cousin of Kee Tah Peng and uncle of Dr Kee Kirk Chin. He is a Director of Apex Pharmacy Holdings Sdn Bhd, which holds 39.4% equity in the Company. Save as disclosed above, he does not have any family relationships with any other director and/or major shareholder of the Group, nor any personal interest in any business arrangement involving the Company. He attended all of the four Board Meetings held in the financial year ended 31st December 2005. He has had no convictions for any offences within the past 10 years.



## Chairman's Statement

I am pleased  
to report that  
in the financial  
year ended  
31st December  
2005 the Apex  
Healthcare  
Berhad  
("APEX") Group  
recorded  
revenue of  
RM 190.2  
million and  
profit before  
tax of  
RM 19.8 million.

In line with our vision of establishing APEX as a leading pharmaceutical group in Malaysia and the region, the Group underwent significant changes in 2005 to create a positive platform for enhanced growth. The divestment of the retail division which has formed a core part of the Group for over 40 years refocuses the group on its core manufacturing and distribution businesses, while the investment in China is the first major overseas investment by APEX, and strategically positions the Group in the most important market in Asia.

### DIVIDEND

The Board of Directors is pleased to recommend a final dividend of 5 sen gross per share less tax for financial year 2005.

The final dividend of 5 sen gross per share less 28% tax in respect of financial year 2004 was paid on 23rd June 2005. An interim dividend of 5 sen gross per share less 28% tax in respect of financial year 2005 was paid on 12th October 2005.

### BOARD OF DIRECTORS

During the year, En Md Ali bin Md Dewal tendered his resignation from the Board. En Md Ali's contributions during his time as a Director were of great value and on behalf of the Board and the Company, I thank him and wish him well. En Md Ali's resignation precipitated a review of Board size and composition following which Ki Tak Sang retired as a Director and was reappointed as alternate director, and Peter Raymond Robinson stepped down as alternate director. All three rendered invaluable service during an important phase in the Group's development and I thank them on behalf of the Group.

As part of the continuous process of Directors' training, interactive and productive in-house training sessions were held involving Directors and members of senior management during the year.

### SHAREHOLDERS' MANDATE

Shareholders renewed the mandate for recurrent related party transactions of a revenue or trading nature at the 2005 Annual General Meeting held on Tuesday 24th May 2005.

As required by Part E Chapter 10.09 of the Listing Requirements of Bursa Malaysia Securities Berhad, the mandate covered the distribution agreements between the Company's subsidiaries with Grafton Pharmasia Pte Ltd ("GPPL") and Grafton Laboratories Pte Ltd ("GLPL").

With the acquisitions of GPPL and the Agnesia trademark by APEX as described below, the requirement for a shareholders' mandate is no longer applicable for transactions between Group companies and GPPL and GLPL as in previous years.



**Kee Tah Peng**  
Chairman  
Apex Healthcare Berhad





## Chairman's Statement

(cont'd)



### OPERATIONS REVIEW

Domestically, continued steady growth is expected in the pharmaceutical industry. The expiry of patents on certain leading proprietary drugs in 2006 will continue to create the next generation of important generic products. The Group remains committed to the founding values of Service, Quality and Integrity and is well placed to benefit from these trends. In addition, the Group has sharpened its business focus, building on the ABC concept, which simply means that APEX is committed to delivering the best pharmaceutical and healthcare BRANDS through comprehensive CHANNELS to its valued CUSTOMERS. A further elaboration of this is found on page 12.

### RETAIL

On 31st May 2005, the Company completed the divestment of its wholly-owned retail pharmacy subsidiary, Apex Pharmacy Sdn Bhd ("APSB"), to Watson's Personal Care Stores Sdn Bhd ("Watsons") for RM 12.2 million. Watsons also licensed the Apex Pharmacy trade name from the Group for use in the dispensing areas within Watsons store outlets in Malaysia for an initial period of 5 years.

The divestment is consistent with management's view that the business of operating a modern pharmaceutical retail chain requires greater expertise in retailing than in pharmaceuticals, which is the Group's core business.

The Group still retains an interest in the retail pharmacy business via ownership of the Apex Pharmacy name, the licensing of the Apex Pharmacy name to Watsons and through owning and directly operating a retail pharmacy in Melaka, which is the very first Apex Pharmacy I opened in 1962.

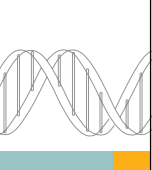


### MANUFACTURING

In April 2005, Xepa-Soul Pattinson (Malaysia) Sdn Bhd ("XSPM") launched Provinace™ (generic perindopril) tablets, an ACE inhibitor for the treatment of hypertension and congestive heart failure. In the third quarter of 2005, XSPM launched generic meloxicam, under the trade name Arrox™, and new dosage sizes for the Tussidex™ and Mucolix™ syrups. Progress was made in the areas of contract manufacturing and increasing revenue from government tender business. A new liquid line was commissioned during the year.

XSPM is currently in the planning stages for a major expansion of its facilities spanning the next three years. Consultants have been appointed to advise on the new plant which is expected to cost RM 26 million and will be built to meet and exceed current regulatory standards. The new plant will ensure that XSPM maintains its position of market leadership in the face of fast-growing demand.





## Chairman's Statement (cont'd)

### MARKETING

The Group has launched its own brand of nutritional supplements under the name Liquid Factors™. The first products in the range are Salmon Oil and Milk Thistle. The Group has a strong brand for generic ethicals under Xepa<sup>SP</sup> and aims to complement this by developing brands with strong market recognition in the area of consumer health care products. In the area of personal medical equipment also, the Group will be developing its own brand, Exceltec™.

APEX acquired ownership of Agnesia™ medicated powders in conjunction with the acquisition of GPPL in January 2006. Agnesia™ is one of the most venerable trademarks in the region, having been registered in 1939, and is recognized by many generations of users. APEX



regards the acquisition of established brands as a strategy to supplement development of brands from scratch; this enables APEX to jump start a product. APEX hopes to be able to build strongly on the current RM 4 million annual sales of Agnesia™.

### DISTRIBUTION

During the second quarter of 2005, Apex Pharmacy Marketing Sdn Bhd ("APM") moved from its cramped former premises in Bandar Sunway to its new and larger central warehouse in Subang Jaya. The warehouse has 60,000 square feet of space, and the adjacent 4-storey corporate block houses a further 40,000 square feet of office space.

APEX remains by far the leading pharmaceutical wholesaler in Malaysia and continues to add new distribution principals. A major upgrade of capability took place towards the end of the year with the implementation of SAP ERP software throughout the entire division. A further improvement will take place when GPPL's Weblink software is extended to cover the APM's system; Weblink will enable principals to access data on their own products from APM's databases on demand over the Internet.

Intensive negotiations took place during the final quarter of the year in regard to the acquisition of GPPL, leading to the completion of the acquisition on 18th January 2006 for a consideration of S\$ 17,000. The vendors are related parties of the Group, and the Board is therefore indebted to the non-interested Directors for their crucial part in the negotiations and decision making process, from which the interested Directors abstained.





## Chairman's Statement

(cont'd)



### PROPERTY HOLDING

The Group is a pharmaceutical company and its policy is to divest properties that are surplus to operating requirements. With the transfer of the Klang Valley operations to the purpose built Corporate Headquarters and Central Warehouse at Subang Jaya, the three terraced industrial units in the Bandar Sunway light industrial zone have been disposed of for a capital gain.

### INVESTMENT IN CHINA

On 1st August 2005, the Group took a major step forward with its first investment outside Malaysia. This date saw the completion of the Group's acquisition of a 25% equity interest in Xiamen Maidiken Science & Technology Company Limited ("XMST"), the holding company of the Luyan (Fujian) Group ("LFG"), for RM 9.8 million. The acquisition was made through the Group's wholly-owned subsidiary, Apex Pharmacy International Sdn Bhd ("API").

LFG is one of the leading private sector pharmaceutical company in Fujian province in the People's Republic of China, and its businesses of retail pharmacy, pharmaceutical logistics and distribution and manufacturing are those in which the Group has most experience and expertise.

### PROSPECTS

The acquisition of GPPL extends the Group's pharmaceuticals logistics business to Singapore. Although the Singapore

market is competitive, management is confident that the economies of scale and synergies between GPPL and APM will contribute to GPPL's fortunes.

The concurrent acquisition of Agnesia™ places in the ownership of the Group one of the region's most venerable consumer health trademarks. The potential for revitalization and expansion of the Agnesia™ brand with wider market penetration and brand extension is very substantial.

With the investment in LFG, APEX has now firmly embarked on a long-term course of regional expansion, while steadfastly remaining a Malaysian pharmaceutical company which adheres to founding principles and which recognizes the importance of securing and developing the best people at all levels in the Group.

The Board and management are convinced that this is the best way forward and one which will lead to new heights for APEX and its many loyal shareholders.

On behalf of my fellow Directors, I would like to thank all our staff, suppliers, principals, customers and business partners for their loyalty and support and look forward to another mutually beneficial year of growth together.

### KEE TAH PENG

Non-Executive Chairman  
Apex Healthcare Berhad





## The ABC of Our Business

APEX was founded in 1962 by Mr Kee Tah Peng as a single retail and wholesale pharmacy along Jalan Munshi Abdullah in Melaka. Since then, APEX has continually refined its business model in its growth into the Apex Healthcare Berhad that we are familiar with today. In 2006, management has returned to first principles to state a vision on which it intends to build APEX in the new century.

We call this the ABC Vision: APEX brings the best pharmaceutical BRANDS through our comprehensive CHANNELS to our valued customers.



### APEX

The A in the ABC Vision stands for APEX, which was founded on the ideals of Service, Quality and Integrity. These same principles remain the bedrock on which APEX is built and will continue to serve as the ideals on which the growth and expansion of APEX into a leading regional pharmaceutical company.



### BRANDS

The B in the ABC Vision stands for BRANDS. Successful global industries and businesses have always recognized the vital importance of BRANDS. It takes many years of brand building before a brand builds trust and recognition among its customers. APEX is proud that, over years of upholding its founding principles, its customers and partners have come to associate its name with the highest standards of service and product that the pharmaceutical industry can offer.

Since 1962, APEX is the most important brand name within the group, and embodies all the values of the group. It is trusted by the public and health professionals, and represents a depth of know-how in pharmaceuticals. To business partners, APEX represents comprehensive knowledge of local markets and conditions. APEX also develops its own brands, manages branded products for other principals, and licenses its brand name for use by others.





## The ABC of Our Business

(cont'd)



### Corporate Brands

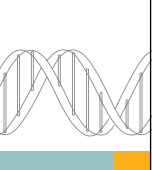
APEX's generic pharmaceutical products carry the Xepa<sup>SP</sup> brand, which has almost as long a history as Apex itself. Under the Xepa<sup>SP</sup> name, APEX has provided high quality pharmaceuticals to medical professionals in Malaysia and worldwide for 40 years.

The Apex Pharmacy name has been built up by APEX as the trusted name in retail pharmacy in Malaysia over 44 years. In 2005, the Apex Pharmacy retail chain was divested to Watsons

Personal Care Stores, which also licensed the Apex Pharmacy brand name for use in its dispensing operations. The licensing agreement is recognition of the goodwill built up by the Apex Pharmacy brand from an expert in retail.

While Apex Pharmacy caters to the individual, Apex Pharma serves the medical and pharmaceutical profession. As a market leader in pharmaceutical wholesale and distribution in Malaysia, Apex Pharma is a guarantee of the highest level of service to 3,600 doctors, 66 hospitals and medical centres and over 1,000 pharmacies in the country.

Investing in the Luyan (Fujian) Group has brought into APEX an important new brand. Much like APEX itself, the Luyan group has recognized the value of brands and has put much effort into developing Luyan as a brand name in China.



## The ABC of Our Business

(cont'd)



### Product Brands

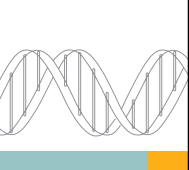
Xepa<sup>SP</sup> manufactures a comprehensive range of high quality generic pharmaceutical products, with each product carrying its distinctive product brand that enjoys a strong reputation among healthcare professionals and consumers. One of Xepa's oldest and market leading products is its line of Sedilix<sup>TM</sup> cough mixtures. Other Xepa<sup>SP</sup> products which have acquired strong brand equity are Covastin<sup>TM</sup>, Ezede<sup>TM</sup> and Adezio<sup>TM</sup>.

In consumer healthcare, APEX has begun developing its own brands, the first of which is Liquid Factors<sup>TM</sup>, which is the Group's first brand of premium nutritional supplements. Exceltec<sup>TM</sup> is the second consumer brand being developed by APEX, and is used for the Group's range of personal medical equipment, such as blood pressure monitors, pulse rate monitors and digital thermometers. It is the desire of the Group that these new consumer brands will soon attain brand equity equivalent to that enjoyed by Xepa<sup>SP</sup> today.

APEX will also acquire existing equity, especially those where its skill sets are complementary to maximizing the potential of such acquired brands. The recent acquisition of Agnesia medicated powders in early 2006 is a case in point. Agnesia is one of the region's most venerable products and APEX will revitalize and extend this famous brand.







## The ABC of Our Business

(cont'd)



APEX also has the responsibility of managing the valued brands of its principals. Apex Pharma serves as agent or distributor for international brands from multinational companies such as Nestle, GlaxoSmithKline, 3M Medical and Colgate Palmolive in Malaysia.



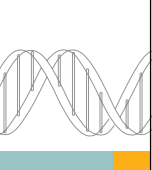
### CHANNELS

The C in the ABC Vision stands for CHANNELS. APEX has special expertise and experience in ensuring that pharmaceutical products and services are delivered to points of demand as efficiently and economically as possible.

From long experience in the pharmaceutical industry, we recognize that the finest product in the world is of no use if it cannot reach the end-user. In pharmaceuticals especially, logistics is as important as the manufacturing process.

Pharmaceutical and health care products are generally small, valuable items. Often these require special storage and handling. Because these items are usually sold by prescription only, and may be hazardous if not used correctly, there are strict registration and regulatory controls. While the process of getting pharmaceuticals from where they are to where they are wanted is simple in theory, a complex and sophisticated chain of controls and procedures is required to get the products to where they are needed.





## The ABC of Our Business

(cont'd)



Likewise, logistics counts for little if the customer does not know your product. Customer education and marketing, especially in pharmaceuticals, is therefore essential and ranges from printed material to professional counsel from trained pharmacists. Customers range from laymen who have rudimentary knowledge about medicines to highly trained medical professionals, and we have to be able to communicate effectively to a diverse group of valued customers.

APEX distributes via a comprehensive chain of 8 warehouses, 6 in peninsular Malaysia and 2 in East Malaysia. The physical network is backed up by ERP software from SAP, which links all the physical locations in a Total Information Portal used by APEX, its principals and its customers to track the movements of their products with efficiency and precision.



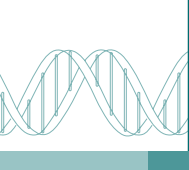
The physical infrastructure works in tandem with a highly trained sales team which sells to hospitals, clinics and pharmacies throughout Malaysia.

APEX has strategic partnerships with top international pharmaceutical and health care companies which use its channel services.

The integration of Grafton Pharmasia Pte Ltd into APEX's channel network in January 2006 and the addition of the Luyan group in China greatly increases and broadens the group's geographical coverage.







# Corporate Governance Statement

## NARRATIVE STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Company is fully committed to good Corporate Governance and fair dealing in all its activities. It subscribes fully to the principles and best practices set out in Part I to the Malaysian Code of Corporate Governance. This statement describes the practices that the Company took with respect to each of the key principles and the extent of its compliance with the code during the financial year. The Board of Directors confirms that aside from any exceptions noted below, the Group has complied with the Best Practices in the Code during the year under review.

## DIRECTORS

### 1. The Board

The Company is led and managed by an experienced Board, comprising members with a wide range of expertise and experience in various fields, encompassing accounting, medicine, pharmacy, finance, engineering, construction and other industries. Their expertise, experience and background have resulted in thorough consideration and deliberation of the various issues and matters affecting the Company and the Group from varied perspectives. The Board is answerable directly to shareholders, sets Corporate Objectives and administers a Schedule of Matters exclusively reserved for the Board's decision.

The Board holds regular scheduled meetings four times a year with additional meetings as necessary. The Board delegates certain functions to Board committees, further details of which are given elsewhere in this Annual Report. To engage all Directors fully, members of the Board committees are rotated from time to time.

### 2. Board Balance

The size of the Board was reduced from nine Directors to seven, following deliberations by the Nomination Committee which took into account the board sizes and practices of local listed companies. The Board of the Company now comprises one executive director, four non-executive non-independent directors including the chairman, and two independent directors.

### 3. Supply of Information

Directors have comprehensive and timely access to information concerning the Company and the Group. Board papers and reports, which detail Group performance and major operational, financial and corporate information, are distributed to the Directors in advance of Board Meetings. Directors may request further explanation, where necessary, in order to be properly briefed before the meeting.

Directors have access to the advice and services of the Company Secretaries and the senior Management staff in the Group, and may seek external professional advice at the Company's expense in furtherance of their duties.

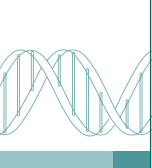
### 4. Appointments to the Board

Appointments to the Board are based on the recommendations of the Nomination Committee established by the Board on 23rd May 2001, the activities of which are described on page 30. The selection criteria with regard to the desired candidate are a combination of competencies, the qualifications specified by the regulatory authorities and relevant experience in the judgment of the Nomination Committee and the Board. The selection also takes into account financial and commercial relationships with the Group to avoid or minimize potential conflicts of interest. The Directors therefore bring a broad range of skills and credentials to their deliberations. Each Director brings a high degree of independent judgement and knowledge to the Board's activities.

The Board is cognizant of the need to provide continuing education to Directors. Training needs of Directors are determined and planned collectively in the spirit of continuously maintaining and upgrading the relevance of Directors' skills and knowledge.

### 5. Re-election

The procedure for rotational re-election of directors is set out in the Articles of Association of the Company, in particular Article 89.



## Corporate Governance Statement (cont'd)

At least one-third of the Directors are required to retire by rotation each financial year in accordance with the Company's Articles of Association, in particular Article 89. Retiring Directors can offer themselves for re-election at the Annual General Meeting. Directors who are appointed by the Board to fill a casual vacancy are subject to election by shareholders at the Annual General Meeting immediately following their appointments.

The Company's Articles of Association have been amended to provide that executive directors will also be subject to re-election by rotation once every 3 years to comply with sub-paragraph 7.28(2) of Bursa Securities Listing Requirements.

In this Annual Report, details of directors seeking re-election and re-appointment, such as their age, relevant experience, list of directorships, date of appointment, details of participation in Board Committees and whether they are independent directors are disclosed in a separate statement on pages 4 to 7.

### DIRECTORS' REMUNERATION

#### 6. The Level and Make-Up of Remuneration

The Board has established a Remuneration Committee, details of which are set out on page 27.

The Remuneration Committee is an integral part of the process by which the company attracts and retains the Directors needed to run the company successfully. The Committee recommends remuneration based on review of the performance of the Company and Group, and studies of remuneration practices in comparable public companies.

#### 7. Procedure

The procedure for determining the remuneration of directors is incorporated in the Terms of Reference of the Remuneration Committee as set out on page 27.

#### 8. Disclosure

Details on Directors' remuneration are set out in the Remuneration Committee's report on page 28. The remunerations of individual directors are not disclosed as this information is deemed to be private and confidential.

### SHAREHOLDERS

#### 9. Dialogue between companies and investors

The Board values dialogue with both institutional shareholders and private investors and recognizes that timely and equal dissemination of relevant information should be made to these parties.

Management meets with shareholders and investment analysts from time to time to explain the group's strategy, performance and major developments and to receive feedback. Concerns of shareholders may be addressed to the Senior Independent Non-Executive Director, currently Leong Khai Cheong, via the Company Secretaries.

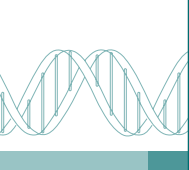
#### 10. The Annual General Meeting

Shareholders are encouraged to participate at Annual General Meetings which are the principal forum for dialogue with the shareholders, and are an opportunity for the Chairman and Board members to respond personally to all queries and undertake to provide sufficient clarification on issues and concerns raised by the shareholders.

### ACCOUNTABILITY AND AUDIT

#### 11. Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects throughout each financial year, by means of annual financial statements, quarterly and half yearly announcement of results to shareholders as well as the Chairman's Statement and other reports in the Annual Report to shareholders. The Audit Committee provides the Board with substantial assistance in oversight of the Group's financial reporting processes and the quality of its financial reporting.



## Corporate Governance Statement (cont'd)

### 12. Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls, which provides reasonable assurance in ensuring the effectiveness and efficiency of operations and safeguards the assets and interests in compliance with laws and regulations as well as with internal financial administrative procedures and guidelines.

The internal controls comprise risk management and financial, organizational, operational and compliance controls devised to safeguard shareholders' investment and the Group's assets. This system is intended to provide reasonable, rather than absolute, assurance against misstatement or loss within the practical constraints of operating a going concern and work is ongoing to improve and refine the internal control system. The Board has instituted an Internal Audit function further described in the Audit Committee report on page 26.

The Statement on Internal Controls is set out on page 21.

### 13. Relationship with the Auditors

The Board has established formal and transparent arrangements for maintaining an appropriate relationship with the Company's External Auditors. The Company's Auditors, Messrs Ernst & Young, have continued to report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. From time to time, the auditors bring matters that require attention to the Audit Committee and Board.

### STATEMENT ON THE EXTENT OF COMPLIANCE WITH BEST PRACTICES

The Board is of the opinion that the Group has addressed and is in compliance with the Best Practices recommended in Part 2 of the Code on Corporate Governance. Further elaboration is made on certain aspects of compliance as follows:

- The Group welcomes contact with investors and shareholders. The Group has not instituted a formal investor relations programme. Nevertheless, several meetings are held every year between Group senior management and professionals from the investment industry. These are briefings organized by the Group or meetings on a smaller scale in response to specific requests by industry professionals. Management from time to time makes use of the services of external professional advisors on investor relations. [Code on Corporate Governance Parts 2AA1 and CC 1]
- The replacement of the post of Executive Chairman with the post of Non-Executive Chairman took place on 1 January 2003 as the company has adopted best practice on division of responsibilities. [Part 2AA II]
- Given the size and composition of the Board and the requirements on the composition of sub-committees, it is unavoidable that there should be some overlap in the membership of the various Board committees. This overlap has increased with the further streamlining of the size of the Board to seven members from nine. However, the Board is of the opinion that the independence of the Board committees' decision-making processes is not compromised thereby, and the reduction in size was decided upon after careful consideration of board sizes and practices of other listed companies. Rotation from time to time of Directors on the committees helps to maintain the independence of these committees.

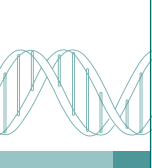
### ADDITIONAL INFORMATION

#### 1. Non-Audit Fees

The amount of non-audit fees paid and payable to the external auditors, Ernst & Young, by the Group for the financial year ended 31 December 2005 amounted to RM 34,000.

#### 2. Material Contracts

There are no material contracts of Apex Healthcare Berhad and its subsidiaries involving any of its directors and major shareholders.



## Corporate Governance Statement (cont'd)

### 3. Recurrent Related Party Transactions

At the Annual General Meeting held on 24th May 2005, shareholders of Apex Healthcare Berhad voted in favour of the mandate allowing defined recurrent related party transactions of a revenue or trading nature between the Group and related companies. The aggregate value of transactions conducted pursuant to the shareholders' mandate during financial year 2005 is as detailed below:

	RM
<hr/>	
With:	
<b>Grafton Pharmasia Pte Ltd ["GPPL"]</b>	
Pursuant to the Distributorship Agreements	
Sale of pharmaceuticals and consumer healthcare products for marketing and distribution in Singapore	5,641,269
Purchase of consumer healthcare products for marketing and distribution in Malaysia	379,935
<b>Grafton Laboratories Pte Ltd ["GLPL"]</b>	
Pursuant to the Licence Agreement	
Royalties for the licence to manufacture, market and distribute medicated powder products under the brand name 'Agnesia'.	120,898

With the completion of the acquisition of GPPL by Apex Healthcare Berhad on 18th January 2006 and the simultaneous acquisition of the Agnesia trademark by GPPL from GLPL, the requirement for a shareholders' mandate is no longer applicable for transactions between Group companies and GPPL and GLPL from 18th January 2006.

### 4. Sanctions

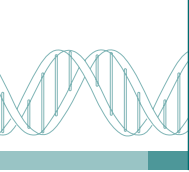
During the financial year, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies.

### 5. Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cashflows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act 1965. The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.



## Statement on Internal Control

### INTRODUCTION

Pursuant to paragraph 15.27(b) of the Bursa Malaysia Securities Berhad ("BMSB") Listing Requirements, the Board of Directors of Apex Healthcare Berhad is pleased to provide the following statement on the state of internal control of the Group comprising Apex Healthcare Berhad and its subsidiary companies for the financial year ended 31 December 2005, which has been prepared in accordance with the "Statement on Internal Control-Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors Malaysia and adopted by the Bursa Malaysia.

### BOARD RESPONSIBILITY

The Board acknowledges the importance of good practice of corporate governance and is committed to maintaining a sound system of internal control, and for reviewing its effectiveness, adequacy and integrity. However, the Board recognises that reviewing of the Group's systems of internal control is a concerted and continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing this objective, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has initiated an ongoing process for identifying, evaluating, monitoring and managing the significant risks affecting the achievement of the Group's business objectives.

### RISK MANAGEMENT FRAMEWORK

The Board recognizes that management of principal risks faced by the Group plays an important and integral part of the Group's daily operations. Principal risks faced by the Group have been identified in a risk assessment exercise. The risk assessment process involved risk identification, prioritisation and formulation of action plans to enhance the internal controls system and better manage the critical risks. The main objective for the risk assessment is to achieve a better management of the risks and controls through formulation of action plans to be implemented and championed by identified members of the management.

Significant risks are continuously identified, assessed and managed with the facilitation of the Internal Audit function and instituted controls are appropriate and effectively applied by the Management to achieve acceptable exposures consistent with the Group's risk management practices.

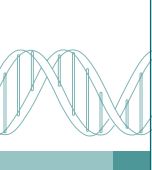
The nature of risks mean that events may occur which would give rise to unanticipated or unavoidable losses. The Group's system of internal controls is designed to provide reasonable but not absolute assurance against the risk of material errors, fraud or losses from occurring. It is possible that internal control may be circumvented or overridden. Furthermore, because of changing circumstances and conditions, the effectiveness of an internal control system may vary over time. The rationale of the system of internal controls is to enable the Group to achieve its corporate objectives within an acceptable risk profile and cannot be expected to eliminate all risks completely.

The risk assessment process will be carried on an annual basis to ensure that significant risks are continuously identified and that instituted controls are appropriate and effectively applied by the Management to achieve acceptable exposures consistent with the Group's risk management practices.

### INTERNAL AUDIT FUNCTION

The Group has outsourced its internal audit function to a professional services firm whose primary responsibility is to independently provide assessment on effectiveness and reliability of the Group's systems of internal control. The internal audit function advises executive and operational management on areas for improvement and subsequently reviews the extent to which its recommendations have been implemented. The reports are submitted to the Audit Committee and risk and control issues are discussed during the Audit Committee meetings.

In assessing the adequacy and effectiveness of the system of internal controls and accounting control procedures of the Group, the Audit Committee reports to the Board of Directors its activities, significant results, findings and the necessary recommendations or changes.



## Statement on Internal Control (cont'd)

### OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from risk management and internal audit, the Group's system of internal controls comprises the following key elements:

- **Organisational structure and responsibility levels**

The Group has a well defined organisational structure with clear lines of accountability and which has a documented delegation of authority which sets out the decisions that need to be taken and the appropriate authority levels of Management including matters that require Board approval. There are also clear reporting lines up to the Board and its Committees

- **Reporting and monitoring**

The Group's management teams carry out monthly monitoring and review of financial results and forecasts for all businesses within the Group, including monitoring and reporting thereon, of performance against the operating plans and annual budgets. All business units prepare annual budgets and business plans, which are in line with the Group's business objectives. The Board approves the business plan and annual budget and reviews the results on a quarterly basis.

- **Policies and procedures**

The Group has developed documented policies and procedures covering major functions within the Group. The documented policies and procedures form part of a comprehensive standard operating manual.

- **Quality control**

The Group emphasises continuous effort in maintaining the quality of manufacturing process of its pharmaceutical plant. The Directors have ensured that safety and health regulations, environmental controls and all other legislations in connection with the industry have been considered and complied with.

- **Succession planning**

Succession planning for the management staff of the Group is in place and will be reviewed periodically. This is to ensure that business operations and performance will not be adversely affected by departure of key personnel.

The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may result in material losses to be incurred by the Group for the financial year ended 31 December 2005. The Board, in striving for continuous improvement, will put in place appropriate action plans, where necessary, to further enhance the Group's system of internal control.



# Report of the Audit Committee

The Audit Committee of Apex Healthcare Berhad is pleased to present the following report for the financial year ended 31st December 2005.

## COMPOSITION OF AUDIT COMMITTEE AND ATTENDANCE RECORD

The Audit Committee currently consists of 3 members, the majority of whom are Independent Non-Executive Directors. The Chairman of the Audit Committee is also an Independent Non-Executive Director and a member of the Malaysian Institute of Accountants. No Alternate Director is appointed as a member. The Committee met 5 times during the financial year and the attendance record is tabulated as follows:

### ATTENDANCE OF AUDIT COMMITTEE MEETINGS IN FY 2005

Director	Position	Feb 22	Feb 23	May 20	Aug 19	Nov 16	Total
Leong Khai Cheong	Chairman of Audit Committee	√	√	√	√	√	5
Ki Tak Sang @ Kee Tak Sang (resigned as AC member w.e.f. 24th Aug 05)	Executive Director	√	√	√	√	NA	4
Md Ali bin Md Dewal (resigned as AC member w.e.f. 24th Aug 05)	Senior Independent Non-Executive Director	√	√	√	√	NA	4
Dr Ahmad Kamal bin Md Alif	Independent Non-Executive Director	√	√	√	√	√	5
Dr Kee Kirk Chin (appointed as AC member w.e.f. 24th Aug 05)	Managing Director	NA	NA	NA	NA	√	1

Md Ali bin Md Dewal and Ki Tak Sang resigned as Directors on 24th August 2005 as reported in the Nomination Committee's report and consequently also stepped down from the Audit Committee. Dr Kee Kirk Chin was appointed to bring the membership of the Committee to three.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

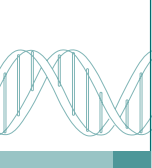
### 1. Constitution

The Board has established a Committee of the Board to be known as the Audit Committee (hereinafter known as the "AC") with authority and duties as specified in these terms of reference.

### 2. Membership of the Committee

- 2.1 The AC shall be appointed by the Board from amongst the directors of the Company and shall consist of at least 3 members, a majority of whom shall be independent non-executive directors. A quorum requires the majority of members present to be independent non-executive directors.





## Report of the Audit Committee

(cont'd)

2.2 At least one member of the AC must be a member of the Malaysian Institute of Accountants. If there is none, one member must either have at least 3 years' working experience and (a) have passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967, or (b) be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or have the following qualifications:

2.2.1 a degree/masters/doctorate in accounting or finance and at least 3 years' post qualification experience in accounting or finance; or

2.2.2 at least 7 years' experience being a chief financial officer of a corporation or having a function of being primarily responsible for the management of the financial affairs of a corporation.

2.3 No alternate director shall be appointed as a member of the AC.

2.4 The Board of directors shall review the composition, term of office and performance of the AC and its members at least once every 3 years to determine whether the AC and its members have carried out their duties in accordance with its terms of reference.

2.5 The members of the AC shall elect a Chairman from among their number who shall be an independent non-executive director.

2.6 If a member of the AC resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.

2.7 The Company Secretary shall be the Secretary of the AC.

### 3. Rights of the Audit Committee

3.1 The AC shall, wherever necessary and reasonable for the performance of its duties, in accordance with procedures stipulated by the Board of Directors and at the cost of the Company:

3.1.1 have authority to investigate any matter within its terms of reference;

3.1.2 have the resources that are required to perform its duties;

3.1.3 have full and unrestricted access to any information pertaining to the Company;

3.1.4 have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;

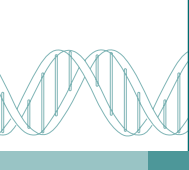
3.1.5 be able to obtain independent professional or other advice and to invite outsiders to attend AC meetings where necessary; and

3.1.6 be able to convene meetings with the external auditors, excluding the attendance of the executive members of the AC, at least once a year and whenever deemed necessary.

3.2 The AC shall take into cognizance in its deliberations the Listing Requirements of Bursa Malaysia Securities Berhad and the Code of Corporate Governance, and any other pertinent regulations and laws, as well as revisions which may come into force thereafter.

3.3 Where the AC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad, the AC shall report such matter to Bursa Malaysia Securities Berhad.





## Report of the Audit Committee

(cont'd)

### 4. Duties and Functions of the Audit Committee

4.1 The AC shall review the following and report the same to the Board of directors:

- 4.1.1 with the external auditors, the nature and scope of the audit before commencement;
- 4.1.2 with the external auditors, their evaluation of the system of internal controls;
- 4.1.3 with the external auditors, the audit reports, management letters and management response;
- 4.1.4 the assistance given by the Company's employees and officers to the external auditor;
- 4.1.5 the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- 4.1.6 the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- 4.1.7 the quarterly results and year end financial statements, prior to approval by the Board of directors, focusing particularly on:
  - changes in or the implementation of major accounting policy changes;
  - the going concern assumption;
  - significant adjustments arising out of audit and unusual events; and
  - compliance with accounting standards and other legal requirements;
- 4.1.8 any related party transaction and conflict of interest situation that may arise within the listed issuer or group including any transaction, procedure or course of conduct that raises questions of management integrity;

4.1.9 any letter of resignation from the external auditors

4.1.10 whether there is reason (supported by grounds) to believe that the external auditors is not suitable for re-appointment; and

4.2 The AC shall review any matters concerning the appointment and dismissal of both the internal and external auditors, their audit fees and render its recommendations accordingly to the Board of Directors.

4.3 The AC shall consider the major findings of internal investigations and management's response.

4.4 The AC shall verify that the allocation of options pursuant to the Apex Healthcare Berhad Employee Share Option Scheme is in compliance with criteria that have been disclosed to employees as required under the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad.

4.5 The internal auditor's primary line of reporting shall be to the Chairman of the AC and functionally and administratively to the Managing Director.

4.6 Any other duties as may be assigned by the Board of Directors from time to time.

### 5. Attendance at Meetings

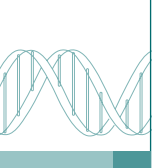
5.1 The Managing Director, Financial Controller, the head of internal audit and a representative of the external auditors shall normally attend meetings.

5.2 Other Board members and employees may also attend AC meetings only at the AC's invitation, specific to the relevant meeting.

### 6. Procedure of Audit Committee

6.1 The AC shall regulate its own procedure, in particular:

- the calling of meetings;
- the notice to be given of such meetings;
- the voting and proceedings of such meetings;



## Report of the Audit Committee (cont'd)

- the keeping of minutes; and
- the custody, production and inspection of such minutes.

6.2 The AC shall meet at least 4 times a year. The external auditors may request a meeting if they consider that one is necessary.

6.3 The Secretary shall circulate the minutes of meetings of the AC to all members of the Board of Directors.

6.4 The AC shall prepare an annual report to the Board that provides a summary of the activities of the AC for inclusion in the Company's Annual Report.

### ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year ended 31st December 2005, the Audit Committee in the discharge of its duties and functions carried out the following activities:

- Met with the Internal Auditors, Messrs Deloitte Enterprise Risk Services Sdn Bhd, to review their Reports and the Internal Audit Plan;
- Reviewed the draft Statement on Internal Controls for inclusion in the 2005 Annual Report;
- Reviewed drafts of quarterly and year-end financial statements prior to approval for release to Bursa Malaysia Securities Berhad by the Board of Directors;
- Reviewed the Audit Plans for the Company and the Group with the External Auditors, Messrs Ernst & Young;
- Considered the re-appointment of External Auditors for financial year 2005;
- Reviewed the assistance provided by management to External Auditors;
- Considered the re-appointment and fees of the Internal Auditors for 2005 and 2006;
- Reviewed the scope of work of the Internal Auditors in view of the divestment of Apex Pharmacy Sdn Bhd;
- Reviewed the value of transactions pursuant to the Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue Nature for financial year 2005;
- With the assistance of the External Auditors Messrs Ernst & Young, reviewed the allocation of options during the financial year ended 31st December 2005.

The Audit Committee confirms that the allocation of Options offered to eligible employees of the Group complies with the Bye-Laws of the Apex Healthcare Berhad Employees' Share Option Scheme

### INTERNAL AUDIT FUNCTION

The Internal Audit function of the Group is currently outsourced to Deloitte Enterprise Risk Services Sdn Bhd.

In accordance with the Terms of Reference of the Audit Committee, the Internal Auditors report functionally to the Chairman of the Audit Committee and administratively to the Group Managing Director.

During the financial year ended 31st December 2005, the Internal Auditors undertook the following activities:

- Conducted follow-up reviews on findings previously reported to the Audit Committee;
- Reviewed and reported on Related Party Transactions of the Group;
- Performed risk assessment on Group operations and discussed findings with the Committee;
- Reviewed and reported on the implementation of good Corporate Governance practices as published in the Corporate Governance Statement in the Group's Annual Reports
- Reviewed the operational expenditure and costing of Xepa-Soul Pattinson (Malaysia) Sdn Bhd ("XSP");
- Assessed the preparedness of XSP for Good Manufacturing Practice ("GMP") audits and made recommendations in regard to improvements.
- Reviewed the Inventory and Store Management of selected depots of Apex Pharmacy Marketing Sdn Bhd;
- Audited and reported on the Accounts receivable and Credit control procedures of selected depots of Apex Pharmacy Marketing Sdn Bhd;
- Reviewed the Information Security and SAP Application System of Apex Pharmacy Marketing Sdn Bhd.



# Report of the Remuneration Committee

The Remuneration Committee of Apex Healthcare Berhad is pleased to present the following report for the financial year ended 31st December 2005.

## COMPOSITION OF REMUNERATION COMMITTEE AND ATTENDANCE RECORD

The RC consists of 3 members, the majority of whom are Non-Executive Directors. The committee was established on 23rd May 2001. During the year under review, meetings were held on 23rd February and 15th November 2005, at which all members were present.

Director	Position	23 Feb	15 Nov	Total
Jackson Chevalier Yap-Kit-Siong	Non-Executive Director & Chairman of Remuneration Committee	√	√	2
Md Ramli bin Samian	Non-Executive Director	√	√	2
Dr Ahmad Kamal bin Md Alif	Independent Non-Executive Director	√	√	2

## TERMS OF REFERENCE OF REMUNERATION COMMITTEE

### 1. Constitution

The Board has established a Committee of the Board to be known as the Remuneration Committee (hereinafter referred to as the "RC") with authority and duties as specified in these Terms of Reference.

### 2. Membership

2.1 The RC shall be appointed by the Board from amongst the directors of the Company and shall consist wholly or mainly of non-executive directors. A quorum shall be any 2 members.

2.2 The members of the RC shall elect a Chairman from among their members.

2.3 The Company Secretary shall be the Secretary of the RC.

### 3. Guiding Principles

3.1 The levels of remuneration should be sufficient to attract and retain the directors and senior management needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors and senior managers.

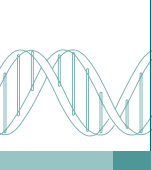
3.2 There should be a formal and transparent procedure for developing policy on executive and senior management remuneration and for fixing the remuneration packages of individual directors and senior management.

3.3 The Committee shall take into cognizance in its deliberations the Listing Requirements of Bursa Malaysia Securities Berhad and the Code of Corporate Governance, and any other pertinent regulations and laws, as well as revisions which may come into force thereafter.

### 4. Duties and Functions of the Committee

The RC is authorized by the Board to:

4.1 Review and determine, at least once annually, adjustments to the remuneration package, including benefits in kind, of the Executive Directors and Senior Management staff, taking into account the performance of the individual, the inflation price index, and where necessary, information from independent sources on remuneration packages for equivalent jobs in the industry.



# Report of the Remuneration Committee

(cont'd)

- 4.2 Review and determine the quantum of performance related bonuses, benefits-in-kind and Employee Share Options, if available, to be given to the Executive Directors and Senior Management.
- 4.3 Review and execute the renewal of the Consulting Agreement with the Chairman.
- 4.4 Consider and execute the renewal of the service contracts of Executive Directors and Senior Management as and when due, as well as the service contracts and remuneration package for newly appointed Executive Director(s) and Senior Management prior to their appointment.
- 4.5 Execute any other duties as may be assigned by the Board of Directors from time to time.

## ACTIVITIES OF THE REMUNERATION COMMITTEE

During the year under review the Remuneration Committee in discharge of its duties carried out the following activities:

- Reviewed the financial year 2004 performance bonuses paid in 2005, and remuneration packages and perquisites of Executive Directors for financial year 2005;
- Reviewed Directors' fees and allowances for financial year 2005, taking into account comparison surveys of practices of comparable listed companies;
- Reviewed Employee Share Option grants to Executive Directors in respect of the Company's Option Grant No. 5;
- Considered and made recommendations on the renewal of the Consulting Agreement between the Chairman and the Company.

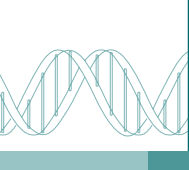
## DIRECTORS' REMUNERATION

The remuneration of the Directors is presented in bands of RM 50,000 in the table below:

Remuneration Band	Non-Executive Directors	Executive Directors
Below RM 50,000	5	-
RM 200,001 to RM 250,000	1	-
RM 250,001 to RM 300,000	-	1
RM 600,001 to RM 650,000	-	1

In addition, the remuneration (in Ringgit Malaysia) is analyzed into these categories as follows:

Analysis of Remuneration	Executive Directors	Non-Executive Directors	Total
Fees	7,000	90,000	97,000
Salaries & other emoluments	678,480	220,500	898,980
Bonus - current year's accrual	165,805	-	165,805
Bonus - under-accrual of previous year	12,192	-	12,192
Pension costs - defined contribution plans	90,619	-	90,619
Benefits in kind	50,325	-	50,325
	1,004,421	310,500	1,314,921



## Report of the Nomination Committee

The Nomination Committee of Apex Healthcare Berhad is pleased to present the following report for the financial year ended 31st December 2005.

### COMPOSITION OF NOMINATION COMMITTEE AND ATTENDANCE RECORD

The Nomination Committee consists of 3 members, the majority of whom are Independent Non-Executive Directors. The committee was established on 23rd May 2001, and for the year under review met on 23rd February 2005 and 24th August 2005. The attendance of the members of the Committee is tabulated below.

Director	Position	23 Feb	24 Aug	Total
Robert Dobson Millner	Non-Executive Director & Chairman of Nomination Committee	√	√	2
Leong Khai Cheong	Senior Independent Non-Executive Director & Chairman of Audit Committee	√	√	2
Dr. Ahmad Kamal bin Md Alif	Independent Non-Executive Director	√	X	1

### TERMS OF REFERENCE OF NOMINATION COMMITTEE

#### 1. Constitution

The Board has established a Committee of the Board to be known as the Nomination Committee (hereinafter referred to as the "NC") with authority and duties as specified in these Terms of Reference.

#### 2. Membership

2.1 The NC shall be appointed by the Board from amongst the directors of the Company and shall comprise exclusively of non-executive directors, the majority of whom shall be independent. A quorum shall be any 2 members.

2.2 The members of the NC shall elect a Chairman from among their members.

2.3 The Company Secretary shall be the Secretary of the NC.

#### 3. Principle

3.1 The ultimate decision on the appointment of directors to the Board is the responsibility of the Board of Directors after due consideration of the recommendations of the NC.

3.2 The NC shall take into cognizance in its deliberations the Listing Requirements of Bursa Malaysia Securities Berhad and the Code of Corporate Governance, and any other pertinent regulations and laws, as well as revisions which may come into force thereafter.

#### 4. Duties and Functions of the Committee

The NC shall:

4.1 Assess and recommend to the Board, candidates for all directorships to be filled by the shareholders or the Board.

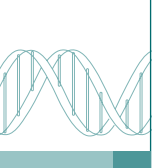
4.2 Consider in making its recommendations, candidates for directorship proposed by the Managing Director and, within the bounds of practicality, by any other senior executive, director or shareholder.

4.3 Assess the effectiveness of the board as a whole, the committees of the Board, individual directors as well as the Company Secretaries through a process to be implemented by the Board.

4.4 Recommend to the Board, directors to fill the seats on other board committees.

4.5 Review annually the Board's required mix of skills and experience and other qualities, including core competencies which non-executive directors bring to the Board.

4.6 Determine appropriate training for Directors, review the fulfillment of such training, and disclose details in the annual report as appropriate, in accordance with Bursa Malaysia Securities Berhad's guidelines on Continuing Education.



## Report of the Nomination Committee

(cont'd)

4.7 Consider and recommend the Directors for re-election at each Annual General Meeting.

4.8 Undertake any other duties as may be assigned by the Board of Directors from time to time.

### ACTIVITIES OF THE NOMINATION COMMITTEE

The activities of the Nomination Committee during 2005 included:

- assessment of the effectiveness and performance of the Board and Board Committees, Directors, and Company Secretaries;
- determination of which Directors would stand for re-election and re-appointment at the 2005 Annual General Meeting of shareholders;
- deciding on a policy for training needs of Directors in accordance with the guidelines of Bursa Malaysia Securities Berhad;

- reviewed the size and composition of the Board of Directors, and in doing so taking into account a survey of the Boards of other listed companies.

### CHANGES IN BOARD COMPOSITION AND AUDIT COMMITTEE

Senior Non-Executive Independent Director En Md Ali bin Md Dewal resigned as a Director on 24th August 2005. The Nomination Committee met to review the composition of the Board and the Audit Committee. After review and deliberation, the Nomination Committee recommended the following changes which were accepted by the Board:

- That Mr Leong Khai Cheong be appointed Senior Non-Executive Independent Director
- That Dr Kee Kirk Chin be appointed a member of the Audit Committee
- Mr Ki Tak Sang steps down as a Director and be appointed as an alternate Director to Mr Kee Tah Peng
- Mr Peter Raymond Robinson steps down as alternate Director to Robert Dobson Millner.

### ATTENDANCE RECORD AT BOARD MEETINGS

Director	Position	23 Feb	24 May	24 Aug	16 Nov	Total
Kee Tah Peng @ Hee Teck Peng	Non-Executive Chairman	√	√	√	√	4
Dr. Kee Kirk Chin	Managing Director	√	√	√	√	4
Robert Dobson Millner	Non-Executive Director and Chairman of Nomination Committee	√	√	√	√	4
Jackson Chevalier Yap-Kit-Siong	Non-Executive Director, Chairman of Remuneration Committee	√	√	√	√	4
Md Ramli bin Samian	Non-Executive Director	√	√	√	√	4
Leong Khai Cheong <sup>1</sup>	Senior Non-Executive Independent Director, Chairman of Audit Committee	√	√	√	√	4
Dr Ahmad Kamal bin Md Alif	Non-Executive Independent Director	√	√	X	√	3
Md Ali bin Md Dewal <sup>2</sup>	Director	√	√	√	X	3
Ki Tak Sang @ Kee Tak Sang <sup>3</sup>	Alternate Director to Kee Tah Peng	√	√	√	√	4
Peter Raymond Robinson <sup>4</sup>	Alternate Director to Robert Dobson Millner	X	X	X	X	0

1. Appointed Senior Non-Executive Independent Director on 24th August 2005.

2. Resigned as Director on 24th August 2005.

3. Resigned as Director on 24th August 2005; appointed as alternate to Kee Tah Peng on 24th August 2005.

4. Resigned as Alternate Director on 1st October 2005.